



FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

We are pleased to present the last issue of Focus on the Fisc until after the legislative sessions. This issue provides information regarding the FY 17 Executive Budget that was released on February 13th, 2015. A detailed analysis of each agency will be available in the LFO's Analysis of the Executive Budget 2016 (Green Book). This issue contains information on the FY 16 Mid-Year Deficit Reduction (HB 122), FY 17 revenues, expenditures, SGF needed and budget challenges. The issue also contains analysis of general government agencies, Medicaid & Public Private Partnerships, the Minimum Foundation Program and Higher Education. The next issue will be published in FY 17.

FOCUS POINTS

FY 17 Executive Budget Overview

Legislative Fiscal Office Staff

FY 17 Projected Deficit

The state of Louisiana faces an unprecedented fiscal crisis as it approaches the final third of FY 16. As the legislature addresses a \$960.5 M deficit for the current fiscal year in the 2016 First Extraordinary Session, it faces a projected deficit greater than \$2 B in FY 17. In an effort to provide a clear indication of the fiscal situation, the Legislative Fiscal Office (LFO) presents the following summary detailing critical components of the shortfall regarding the current state fiscal situation.

The primary components relevant to the fiscal crisis are related to both revenues and expenditures. To understand the scope of the current situation, these two components are most easily discussed separately before converging to illustrate the overall size and scope of the total funding shortfall.

FY 17 Revenue

The Legislature met during the 2015 Regular Session under similar circumstances to the current year, attempting to address a substantial projected deficit in the ensuing fiscal year of approximately \$1.6 B. A number of bills affecting state revenue collections were enacted during the 2015 session. As a whole, these bills were estimated at that time to generate \$719.9 M of additional tax revenue in FY 16. These additional revenues largely supported supplemental appropriations contained in Section 18(D) of the general appropriations bill, Act 16 of 2015. A substantial portion of those revenues, \$464.4 M, provided budget support through dedicated means of finance, leaving \$255.5 M as state general fund-direct financing. These adopted revenue measures were forecast to impact revenues in the out-years as well, generating declining amounts of \$605.8 M in FY 17, \$587.8 M in FY 18, \$328.7 M in FY 19 and \$312 M in FY 20 compared to the FY 2015 revenue base.

At its meeting on 8/14/2015, the REC projected SGF (less Dedications) for FY 17 at \$9.307 B in order to reflect the SGF component of revenue measures adopted during the 2015 Regular Session, an increase of \$494.6 M above the prior revenue estimate adopted on 5/14/2015 (Table 1 on Page 2). However, due to a weakening economy and falling revenues related to the oil and gas industry, the state's fiscal outlook realized a precipitous decline. At the 11/16/2015 meeting the REC lowered its estimate for SGF collections to \$8.983 B, for a decline of \$324.1 M. The REC lowered its SGF estimate again at the 2/10/2016 meeting to

\$8.239 B. The February estimate represented a decline in SGF projected revenues by \$743.9 M compared to the November estimate and \$1.068 B compared to the revenue assumptions adopted during the 2015 Regular Session.

Revenue Estimating Conference (State General Fund less Dedications) Table 1		
	FY 17	\$ Change
Revised REC Estimate (5/14/2015)	\$8,812,700,000	-
Revised REC Estimate (8/14/2015)	\$9,307,300,000	\$494,600,000
<i>The revenue estimate adopted above on 8/14/2015 reflected anticipated revenue increases due to instruments adopted by the legislature during the 2015 Regular Session. Subsequent revenue estimates below on 11/16/2015 and 2/10/2016 revised projections based on performance of the state's economy and updated revenue forecasts.</i>		
Revised REC Estimate (11/16/2015)	\$8,983,200,000	(\$324,100,000)
Current REC Estimate (02/10/2016)	\$8,239,300,000	(\$743,900,000)
FY 17 revenue decline compared to 8/15 post-session estimate		(\$1,068,000,000)

FY 17 Expenditures

For FY 17, Governor Edwards identified an overall SGF expenditure need of \$10.246 B. Given the current FY 17 REC SGF estimate of \$8.239 B, this places the state fisc into a posture of addressing a shortfall of \$2.006 B through spending cuts, not funding increasing costs, revenue enhancements, or some combination of these options.

In constructing the executive budget recommendation, adjustments were made against the existing operating budget to increase expenditure authority for identified needs. Of the unfunded expenditure requirements outlined by the Governor's staff, the LFO has identified the most significant adjustments made to the executive budget recommendation prior to accounting for the projected drop in revenues as noted in Table 2 below.

Addressing Combined Budget Challenges in FY 17

Once the Division of Administration had fully funded the governor's identified, priority governmental expenditure requirements, it then applied a pro-rata reduction to most state agencies while ensuring that all constitutional requirements were provided with the minimum funding level. For most agencies, the pro-rata reduction represented 63% of their SGF with a lesser reduction of 24% for the Department of Corrections, DHH, Higher Education Institutions, the Health Care Services Division, the Judiciary and the Legislature.

DOA Identified Continuation Budget Needs (Table 2)	
Existing Operating Budget as of 12/1/2015	\$8,560,149,964
Fully fund projected Medicaid payments	\$975,876,063
Offset Student Assessment for a Valuable Education (SAVE)	\$350,000,000
State Debt Service Adjustment	\$211,409,572
Office of Revenue	\$51,804,416
FY 17 Minimum Foundation Program (MFP)	\$41,147,143
Taylor Opportunity Program (TOPS)	\$33,144,416
Other Miscellaneous	\$22,285,289
Total Continuation Budget Need Identified	\$10,245,816,863

Mid Year Deficit Reduction 2 with HB 122 Amendments

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To address the \$943 M shortfall recognized by JLCB on 2/13/2016, Governor Edwards proposed using the remaining available allotment from the Budget Stabilization Fund (\$128 M), the initial payment of the British Petroleum economic damages settlement (\$200 M), several tax increases/tax reform initiatives (\$294 M), and budget cuts to state agencies (\$89.8 M). The Governor issued Executive Order JBE16-04 reducing expenditures of state agencies by \$21.7 M, and JLCB approved an additional \$38.5 M at the 2/15/2016, meeting. The final component of the Governor's plan required approval of the full Legislature to effect additional reductions to state agencies totaling \$29.6 M.

House Bill 122 (Henry) increased the amount of reductions requiring legislative approval by \$84 M. Adjustments from House Floor amendments resulted in a total increase over the Governor's plan of \$76.7 M as noted in Table 3 to the right. House Bills 118 and 119 (Barras) address the Legislative and Judicial reductions with amounts matching the Governor's proposal.

Table 3				
Means of Financing	Governor's Plan	House Plans*	\$ Difference	%
State General Fund	(\$5,580,327)	(\$69,499,472)	(\$63,919,145)	1145%
Statutory Dedications	(\$5,662,751)	(\$9,364,268)	(\$3,701,517)	65%
Fees and Self-Gen.	(\$18,310,269)	(\$27,439,730)	(\$9,129,461)	50%
Grand Total	(\$29,553,347)	(\$106,303,470)	(\$76,750,123)	260%
*Includes Engrossed HB 122, HB 118, and HB 119.				

Nearly ninety percent (90%) of the \$76.7 M was allocated to six departments including:

Department of Education - \$51.7 M

As it left the Appropriations Committee, HB 122 included a reduction of \$44 M for the MFP. These funds were included in the supplemental section of HB for FY 16 and were funded outside of the MFP. HB 122 Floor amendments included language prohibiting the allocation of these reductions to local educational agencies or early childhood programs. As such, the reduction will impact the Department of Education's activities, effectively eliminating all of the remaining SGF for the department. The reductions do not take into consideration the supplemental MFP need of approximately \$14 M required as a result of the revised student enrollment counts based on the "more or less estimated" language in HB 1.

Executive Department - \$6.5 M

Additional reductions were made to DOA (\$2.6 M), LA Stadium and Exposition District (\$2.5 M), and Military Affairs (\$607 K).

Department of Health and Hospitals - \$4.7 M

The Original House Bill 122 reduced the Parish Human Services Districts, Office of Elderly Affairs, Mental Health Advocacy Service, and the Office for Citizens w/Developmental Disabilities by \$3.72 M. The House Floor reversed this and allocated the reduction to the Office of Behavioral Health.

Correction Services - \$2.5 M

Includes \$1 million reduction to both private prisons (Allen and Winn Correctional Centers).

Other Requirements - \$2.3 M

LED Debt Service was reduced another \$1.6 M and Sales Tax Dedications (Local Hotel/Motel tax) reduced another \$673,276.

Department of Culture, Recreation, and Tourism - \$1.6 M

Additional reductions were made to the Office of Tourism (\$1 M), Office of State Parks (\$525 K) and the Office of State Museums (\$67 K).

Table 4 to the right reflects the total level of reductions by department as of HB 122 Engrossed compared to the Governor's Proposed reduction Plan.

Table 4				
Schedule	Governor's Entire Proposal	Revised House Plan	\$ +/- House over Governor	% +/-
Executive Department	(\$8,317,896)	(\$14,808,842)	(\$6,490,946)	78%
Veterans Affairs	(\$5,100,000)	(\$5,100,000)	\$0	0%
Secretary of State	(\$1,140,143)	(\$2,043,261)	(\$903,118)	79%
Office of the Attorney General	(\$663,567)	(\$998,124)	(\$334,557)	50%
Lieutenant Governor	(\$13,051)	(\$13,051)	\$0	0%
State Treasurer	(\$148,088)	(\$898,088)	(\$750,000)	506%
Agriculture and Forestry	(\$345,858)	(\$566,887)	(\$221,029)	64%
Commissioner of Insurance	(\$371,050)	(\$421,050)	(\$50,000)	13%
Economic Development	(\$682,083)	(\$1,279,073)	(\$596,990)	88%
Culture Recreation and Tourism	(\$1,223,556)	(\$2,844,299)	(\$1,620,743)	132%
Transportation and Development	(\$18,961,439)	(\$19,350,622)	(\$389,183)	2%
Corrections Services	\$0	(\$2,500,000)	(\$2,500,000)	-
Public Safety Services	(\$3,996,848)	(\$5,457,121)	(\$1,460,273)	37%
Youth Services	(\$2,389,378)	(\$2,400,582)	(\$11,204)	0%
Health and Hospitals	(\$6,735,046)	(\$11,404,310)	(\$4,669,264)	69%
Children and Family Services	(\$4,170,999)	(\$4,187,804)	(\$16,805)	0%
Natural Resources	(\$426,156)	(\$927,817)	(\$501,661)	118%
Revenue	(\$1,339,249)	(\$2,008,874)	(\$669,625)	50%
Environmental Quality	(\$182,037)	(\$263,905)	(\$81,868)	45%
LA Workforce Commission	(\$391,130)	(\$459,126)	(\$67,996)	17%
Wildlife and Fisheries	(\$706,344)	(\$1,059,517)	(\$353,173)	50%
Civil Service	(\$169,851)	(\$285,158)	(\$115,307)	68%
Higher Education	(\$4,020,305)	(\$4,772,375)	(\$752,070)	19%
Special Schools and Commissions	(\$2,307,105)	(\$2,392,776)	(\$85,671)	4%
Education	(\$4,402,430)	(\$56,139,269)	(\$51,736,839)	1175%
LSU HCSD	(\$1,297,314)	(\$1,387,830)	(\$90,516)	7%
Other Requirements	(\$8,812,092)	(\$11,093,377)	(\$2,281,285)	26%
Ancillary Appropriations	(\$665,008)	(\$665,008)	\$0	0%
Non-Appropriated Req.	(\$3,600,000)	(\$3,600,000)	\$0	0%
Judicial Expense	(\$3,991,120)	(\$3,991,120)	\$0	0%
Legislative Expense	(\$2,033,243)	(\$2,033,243)	\$0	0%
Capital Outlay	(\$1,176,000)	(\$1,176,000)	\$0	0%
Grand Total	(\$89,778,386)	(\$166,528,509)	(\$76,750,123)	85%

GENERAL GOVERNMENT

FY 17 General Government Overview

Legislative Fiscal Office Staff

Table 5 below displays the pro-rata SGF reduction by state department.

Department of Military Affairs - \$20.2 M

Military Affairs reports that the proposed SGF reduction would impact its readiness and capability to respond to emergencies. Military Affairs also indicates that the reduction would require the closure of 44 armories in 34 parishes statewide, impact federal readiness status for the La. Army National Guard, closure of power projection platforms at Jackson Barracks in New Orleans and the Gillis W. Long Center in Carville, closure of the Regional Staging Area at Roseland and all five commodity warehouse distribution centers, impact the readiness of the Air National Guard's Homeland Defense Alert Mission, curtail contract oversight of the M6 explosive cleanup process at Camp Minden, elimination of the Special Reaction Team, closure of 2 Youth Challenge Programs at Gillis W. Long and Camp Minden, relocation of the STARBASE Program from Jackson Barracks, and elimination of approximately 405 T.O. positions.

LA Public Defender Board (LPDB) - \$20.9 M

Affects the statutorily dedicated LA Public Defender Fund, which receives monies via SGF deposits, and represents a 62% reduction of the fund from its FY 16 appropriation (\$32.5 M). The fund provides for the LA Public Defender Board's normal operating expenses, including assistance to district defender offices and its capital defense program. The LPDB estimates that 33 district defender offices will restrict services at a minimum with 11 potentially ceasing operations as a result of the reduced funding. The Sixth Amendment to the U.S. Constitution affords criminal defendants a right to counsel and a speedy trial. Additionally, the LA Constitutional Article 1, Section 10 states that legislature shall provide for a uniform system for securing and compensating qualified counsel for indigents. As a result, failure adequately to fund the Board will likely result in litigation.

Office of State Police (OSP) - \$77.1 M

The Executive Budget recommendation reduces the OSP by \$77.1 M in FY 17. The reduction is derived from a combination of SGR (\$47.2 M) and 2 statutorily dedicated funds, the Insurance Verification System Fund (\$24.9 M) and the Debt Recovery Fund (\$5 M). This reduction totals approximately 25% of OSP's FY 16 budget and would have programmatic impacts throughout State Police's operations. If the reduction is realized in FY 17, OSP anticipates program impacts to be widespread and significant. Public safety

Pro-rata SGF Reduction by State Department (Table 5)		
GENERAL APPROPRIATIONS BILL	Amount	Reduction
Executive Department	(\$78,223,697)	63%
Veterans Affairs	(\$3,508,155)	63%
Department of State	(\$2,477,907)	63%
Department of Justice	(\$8,006,740)	63%
Lt. Governor	(\$790,671)	63%
Agriculture and Forestry	(\$16,956,137)	63%
Treasury	\$0	-
Public Service Commission	\$0	-
Insurance	\$0	-
Economic Development	(\$12,404,823)	63%
Culture Recreation & Tourism	(\$23,974,865)	63%
Transportation & Development	\$0	-
Department of Corrections	(\$116,114,862)	24%
Public Safety Services	\$0	-
Office of Juvenile Justice	(\$75,834,483)	63%
Department of Health & Hospitals	(\$795,648,150)	24%
Department of Children & Family Services	(\$92,664,980)	63%
Department of Natural Resources	(\$5,218,098)	63%
Department of Revenue	(\$28,744,050)	63%
Department of Environmental Quality	(\$275,593)	63%
Workforce Commission	(\$5,140,229)	63%
Department of Wildlife & Fisheries	\$0	-
Civil Service	(\$3,371,768)	63%
Higher Education	(\$413,506,478)	24%
Department of Education	(\$82,820,255)	63%
Special Schools & Commissions	(\$25,427,617)	63%
Health Care Services Division	(\$6,475,404)	24%
Other Requirements	(\$152,965,888)	63%
TOTAL	(\$1,950,550,850)	
OTHER APPROPRIATION BILLS		
Judiciary	(\$38,361,338)	24%
Legislative	(\$17,604,675)	24%
TOTAL	(\$55,966,013)	
GRAND TOTAL	(\$2,006,516,863)	

services would be reduced statewide, including layoffs of civilian personnel and State Troopers. Additionally, funding for the OSP Training Academy (\$5 M) and a portion of the State Trooper pay grid (\$11 M) pursuant to LA R.S. 47:1676(E)(1) & (2) is not built into OSP's FY 17 budget recommendation. **In order to continue providing the base level of existing services, OSP will require an alternate means of finance (presumed to be SGF) to supplant the reduction in SGR and statutorily dedicated funds.**

Corrections Services - \$116.1 M

The Department's proposals and estimated reductions include: amending sentencing requirements to allow the release of 11,600 non-violent, non sex-crime offenders 1 year early (\$52.3 M); closing 5 prisons: Rayburn, Avoyelles, Dixon, and the privately run Winn and Allen (\$35.2 M); eliminating increases for equipment (\$4.6 M) and pharmaceutical supplies (\$2.9 M); ceasing all religious, athletic, education, and substance abuse programming (\$2 M) (maintains the Mental Health Programs); furloughing every non-Security, non P&P agent employee 1 day per pay-period (\$1.8 M); terminating 48 probational appointments (\$1.7 M); and ceasing all overtime (\$1.5 M).

Office of Juvenile Justice (OJJ) - \$75.8 M

OJJ proposes reducing Secure Facilities (Custody) from 349 beds to 192 beds resulting in the closure of one of the four facilities. Group Homes (Custody) will go from 300-350 beds to zero, completely eliminating the 18 contracted providers across the state. The Supervision Activity currently has a capacity to serve 4,000 offenders in 11 offices statewide which will be reduced to an estimated 350. This will also result in the closure of all 11 regional offices impacting offenders who are on probation, parole, under an information adjustment agreement or a deferred agreement. Combined, these actions will reduce the number of authorized positions by 563 to a new total of 403.

Local Housing of Adult Offenders - \$102.3 M

At the recommended funding level Corrections anticipates reducing the per diem rate from \$24.39 to \$9.39 (\$81 M) (requires legislative action to change RS 15:824(B)(1)(a)). The Transitional Work Program (Non-Contract) per-diem would be reduced from \$14.39 to \$2.39 (\$13.6 M), (can be lowered administratively). Finally, the department proposes closing all Reentry & Day Reporting Center programs (\$9.2 M).

Mental Health Advocacy Services - \$2.1 M

The agency reports that the proposed reduction would result in the need to close offices and lay off staff. At the recommended funding level, the agency estimates the need to close four to six of its seven offices across the state and reduce its authorized positions by 20-23 out of its allotment of 34. The reduction will impact the agency's ability to provide legal counsel to children involved in children protection and mental health cases. Remaining staff after the reduction and closure of offices would not be funded sufficiently to handle the existing caseload, and would not have sufficient travel expenditure authority to meet statewide need and demand. LA's Child Advocacy Program is reportedly the only of its kind in the country that provides continuous legal representation to assigned children.

Department of Agriculture & Forestry - \$17.0 M

The department's reduction is allocated department-wide and by program: Management & Finance (\$7 M), Agricultural & Environmental Sciences (\$500,000), Animal Health & Food Safety (\$2.3 M), Agro-Consumer Sciences (\$500,000), Forestry (\$6.5 M), and Soil & Water Conservation (\$200,000) programs. The department estimates that 133 of its 555 current employees, or 24% of its workforce, would be reduced as a result. In addition, the department estimates that the reduction of approximately \$990,000 in pass through funds to LA's 44 Soil and Water Conservation Districts would impact the Soil & Water Conservation Program's ability to draw down approximately \$75 M in federal conservation program funds, resulting in an estimated economic impact of \$350 M statewide.

Local Housing of State Juvenile Offenders - \$1.8 M

SGF dedicated through Local Housing of Juvenile Offenders allow the Office of Juvenile Justice to partner with parish and local detention facilities for housing juvenile offenders committed to the state's custody and waiting transfer to Youth Services' physical custody. OJJ reimburses these local detention centers at rates set by statute. (\$23.39 for pending non-secure, \$112.78 for pending secure). Any reduction in the budget will result in fewer youth being served in local detention while waiting for transfer to OJJ custody creating a higher risk to public safety.

Secretary of State - \$2.2 M

The Secretary of State's SGF reduction will primarily affect its Museums Program. Potential programmatic impacts include the limiting of museum hours and operating days, closure of museums, and sale of museums to local governing authorities.

Culture, Recreation & Tourism – Office of State Parks - \$14 M

The agency reports that it will not be able to address the backlog of repair and maintenance projects for the aging system that includes almost 43,000 acres, 211 cabins, 26 group camps and lodges, 1,748 campsites, 54 rental pavilions, and other facilities totaling 1.2 million square feet and 110 miles of Park maintained roads as a result of this reduction. *This reduction may also result in an indeterminable number of park closures.*

Executive Office - \$4.3 M

The Executive Office reports that the proposed 64% reduction of SGF support will severely curtail and limit the operational capacity of the Governor's Office. The agency reports it would likely have to downsize by eliminating approximately 50 of its 74 authorized positions, evaluating each position in an effort to maintain the capability to perform the constitutional duties of the governor. The agency reports that the Governor's Office of Community Programs (GCP) will be adversely impacted through the reduction of federal match, with an accompanying negative impact to its ability to coordinate effective and efficient services to the citizens of the state. GCP oversees and coordinates the work of the Office of Elderly Affairs, Office of Disability Affairs, Statewide Independent Living Council, Children's Cabinet, Interagency Coordinating Council, LA Youth for Excellence, Drug Policy Board and the Women's Policy Board. The office serves as the primary point of contact between the executive office with advocacy organizations, nonprofits, charities, churches and faith-based initiatives across the state to assist in connecting citizens with resources in their area to help address needs.

Division of Administration - \$31.5 M

The Division of Administration is the central management and administrative support agency for the state of LA. The agency is comprised of multiple sections, some functioning in a control-oriented capacity and others in a service-oriented one. The Division of Administration provides the following services to the executive branch of government: Financial Services, Property Control, Internal Controls and Community Development (administration of block grants). At the time of publication of this document, the agency is still assessing the estimated impact of the proposed SGF reduction and will report to the LFO when a plan is finalized.

Office of the State Inspector General - \$1.3 M

The State Inspector General reports that the proposed reduction of SGF support would result in the elimination of approximately 12 of the agency's 16 authorized positions and associated operating expenses. The agency currently has 11 criminal investigators, 2 forensic auditors, 1 general counsel, 1 administrative assistant and the Inspector General. All of these positions are currently filled. The Inspector General reports the proposed reduction will have a severe negative impact on the agency's ability to effectively investigate governmental fraud, waste and corruption.

Department of Natural Resources – Office of Conservation - \$2.3 M

DNR reports the proposed reduction in SGF expenditure authority will result in a direct impact on program activities and a reduction of approximately 32 T.O. positions. The position eliminations will impact activities related to ground water inspection, oil and gas field inspections, commercial waste, exploration and production waste, underground injection control, inspection and enforcement, and production audit. DNR reports it would also close two of its three Office of Conservation district offices.

Department of Natural Resources – Office of Mineral Resources - \$2.7 M

DNR reports that the proposed reduction of SGF, coupled with declining revenues in statutory dedications related to oil and gas drilling and exploration, will result in the necessity to lay off approximately 50% of its staff, approximately 31 or 32 of existing 61 authorized positions. The department reports significant impacts on its abilities to oversee and administer royalty collection and audit functions, lease management, geological and engineering review, and seismic permitting.

HEALTH & HOSPITALS

Health & Hospitals/Children & Family Services Overview

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Medicaid Overview

The Governor's Executive Budget provides an additional \$276.8 M in SGF (\$1.5 B Total increase in funding) for Medicaid in FY 17. Total Medicaid funding for FY 17 represents a 19% increase from the FY 16 Existing Operating Budget (14.8% increase in SGF), after incorporating an overall SGF reduction of \$679,095,432 (and associated federal match).*

**Note: There is no specific cut plan reflected in the Executive Budget related to the \$679 M SGF statewide cut applied to Medicaid. Although this cut is allocated by program in which the largest cut (approximately 80%) is in Payments to Private Providers, the Executive Budget does not delineate how these cuts will be allocated between specific providers. DHH has indicated certain targeted cuts and program eliminations, which would be limited to certain optional programs. A cut plan provided by DHH indicates reductions in payments to Public Private Partnership hospitals, certain waiver programs cuts and eliminations, elimination of the Pediatric Day Health Care Program, elimination of the Program of All Inclusive Care for the Elderly (PACE), and reducing managed care organization (MCO) Per Member Per Month Payments. DHH's initial cut plan does not include across the board rate cuts.*

In addition, the Medicaid budget does not include an associated federal matching fund reduction (as these SGF revenues are used to draw federal Medicaid match to make provider payments) tied to the SGF cut. The total impact of this reduction is \$1.79 B for FY 17 (loss of state and federal funds).

Certain significant increases reflected in the FY 17 Medicaid budget include funding projected growth for Public Private Partnerships, projected growth in Bayou Health funding, and funding for a FY 16 Bayou Health payment obligation pushed into FY 17 (1 additional Bayou Health check write added in FY 17), MCO payments for Medicaid expansion for individuals to 138% of the federal poverty level, various waiver slot increases, and increases in projected pharmacy costs and provider rate increases, and funding the backfill of revenues reduced in FY 16 as part of the FY 16 mid year deficit elimination plan. *These specific Medicaid increase adjustments for FY 17 are reflected below:*

Significant FY 17 SGF Increases

- \$330.8 M - Replace funding reduced in the FY 16 mid year deficit plan
- \$195.3 M - Bayou Health managed care capitation rate payments
- *\$167.0 M - Swap non-recurring one-time revenues for SGF
- \$136.1 M - Value of FY 16 pushed check write (June 2016) into FY 17
- \$38.2 M - Supplemental Medicaid payments for Public Private Partnerships
- \$24.3 M - Fee for Service increase (includes Pharmacy, PACE, and LT-PCS)
- \$21.3 M - Rate increase (FQHC's, RHC's, Hospice, Rural H's, Nursing F's)
- \$21.0 M - Rate increase to Home and Community Based Service workers
- \$20.3 M - Waivers (NOW, Supports, Children's Choice, Community Choices)

*Another adjustment that increased the level of SGF appropriation in FY 17 resulted from the replacement of \$166 M in one time revenues used in FY 16, of which approximately \$62 M in one time revenue appropriated in Medicaid did not materialize in FY 16.

FY 16 significant one-time revenue used for recurring expenditures:

- \$52,000,000 - State Tax Amnesty Program revenues
- \$114,556,548 - Overcollections Fund revenues
- \$166,556,548 - Total

Public Private Partnership Hospital Funding

The FY 17 Medicaid budget includes an additional \$101.1 M in supplemental Medicaid payments (\$38.2 M SGF) for public private partnerships projected growth. However, total Disproportionate Share Hospital (DSH) funding associated with the partnership hospitals is reduced by \$102.1 M for FY 17, for a total net decrease in DSH and supplemental funding of \$1.02 M for the partnerships in FY 17. Funding reflected

below does not include Title XIX Medicaid claims payments. It is assumed the DSH reductions to partners will be offset in part with Medicaid claims payments as the result of increased claims from Medicaid expansion.

\$1,209,703,102 - FY 16 PPP Funding Budgeted
\$1,208,682,021 - FY 17 PPP Funding Appropriated

*Note: Although the \$679 M SGF cut in Medicaid is not directly allocated across specific providers in the Executive Budget, **information provided by DHH indicates any cuts to Medicaid are anticipated to materialize in a reduction to Public Private Partnership payments.***

Public Private Partnership Cooperative Endeavor Agreements

The Cooperative Endeavor Agreements (CEAs) for each of the partnerships have specific stipulations in regard to termination of these partnerships. For six of these partnerships, the CEAs include a clause that allows the private partner to terminate the contract without cause provided they give Louisiana sixty days notice of their intent (Table 6).

The private partners that have this option include Children Hospital (New Orleans), Biomedical Research Foundation (Shreveport/Monroe), Southwest Louisiana Hospital Association (Lake Charles), Lafayette General Hospital System (Lafayette), Our Lady of Angels (Bogalusa), and Our Lady of the Lake (Baton Rouge). CHRISTUS and Rapides Healthcare System (Alexandria) and Southern Regional Medical Corporation (Houma) CEAs do not have specific language in the CEA that allows the private partner to terminate the contract without cause. However, there are several stipulations that allow either of these two partners to terminate the contract provided they give advanced notice. The CEA between CHRISTUS and Huey P. Long has a stipulation that if "inadequate" funding is received by Rapides or CHRISTUS from the state, the CEA can be terminated after the private partner has given the state 180 days notice.

Overview of Private Public Partnerships Options to Terminate Without Cause (Table 6)			
Private Partner	LSU Hospital	Termination Without Cause Option	# Days Needed to Exit CEA without Cause
Louisiana Children's Medical Center and University Medical Center Management Corporation	Medical Center in New Orleans	Yes	60 Days
Biomedical Research Foundation of Northwest Louisiana and BRF hospital Holdings, L.L.C.	HSC Shreveport and EA Conway Medical Center	Yes	60 Days
Southwest Louisiana Hospital Association dba Lake Charles Memorial Hospital	W.O. Moss Regional Medical Center	Yes	60 Days
Lafayette General Hospital System and University Hospital and Clinics	University Medical Center (UMC)	Yes	60 Days
Our Lady of Angels and Franciscan Missionaries of Our Lady Health System	Washington St. Tammany Medical Center ("Bogalusa")	Yes	60 Days
Our Lady of the Lake	Earl K. Long (Baton Rouge)	Clinical Services – Yes; CEA can terminate from inadequate funding	Clinical Services (w/out cause) - 90 days CEA from inadequate funding – 180 days
CHRISTUS Health Central Louisiana and Rapides Healthcare System	Huey P. Long	No, but can terminate from inadequate funding from the state	No without cause option, but 180 days for inadequate funding
Southern Regional Medical Corporation and Hospital Service District #1 of Terrebonne Parish	Leonard J Chabert Medical Center	No, but can terminate from inadequate funding from the state	No without cause option, but 90 days for inadequate funding (after three years, 60 days)

These CEAs stipulate the payment methodology and specific amounts that are required based on the agreed upon Medicaid/Medicare Cost Report and the cost analysis worksheet that the partner submits to the state. Based on conversations with entities involved with these CEAs, the Legislative Fiscal Office has been informed that since these private partners are expecting to be reimbursed for all costs associated with their service (as required by the CEA) and any funding below this level could be interpreted as "inadequate."

In the event a private partner seeks to terminate the contract, the CEA dictates both parties are involved in a "wind-down" period where both parties begin the transition of operations while ensuring services will be provided to the public. If negotiations between LSU and private partner are not successful, LSU and the state will have 60-180 days to 1) contract out operations to an outside private entity to assume operations with the State providing operating capital for operations, 2) hire new public employees and assume

operations within the sixty days with the State providing operating capital for operations, and 3) LSU would seek approval from the Legislature to close facility. The CEA between BRF and LSU requires a committee of 6 (LSU, BRF & DOA, 2 members each) to over see the transition and requires LSU to name successor corporation and members of the Board.

Private Partner Lease Payments

The state receives lease payments from the private partners to use state hospital facilities. This includes Children's Hospital, Our Lady of the Lake, Biomedical Research Foundation, University Hospitals and Clinics, Southwest Louisiana Hospital Association, and Our Lady of Angels.

In the event a partnership is terminated, the lease payments from the partner would cease and as a result the state funding would be lowered. The adopted Revenue Estimating Conference forecast includes \$190 M of lease payments for the current year and \$160 million for FY 2016-2017.

Based on testimony provided by the private partners, the state would be expected to reimburse these partners for any prepaid rental payments (advanced lease payments), equipment acquisitions made by the private partner, and/or any capital expenditures made by the private partners. University Medical Center CEO, Greg Feirn, has stated in committee that there is nearly \$385 M worth of prepaid rental and capital improvements made by Children's Hospital at the new UMC Hospital that the state would be obligated to reimburse to Children's Hospital. Lease payments by fiscal year are displayed in Table 7 to the right.

Overview of Lease Payments Deposited into the State Treasury (Table 7)				
	2012-13	2013-14	2014-15	2015-16
	Actual	Actual	Actual	Appropriated
Total Lease Payments Received*	\$283,379,817	\$132,852,741	\$135,560,763	\$190 M**
*Source: Treasurer's reports** Revenue Estimating Conference Adopted Forecast				

EDUCATION

FY 17 Minimum Foundation Program (MFP)/ Department of Education

Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov

Minimum Foundation Program

The Minimum Foundation Program (MFP) provides for an equitable distribution of state funds to local school districts. The MFP is the major source of state funding to local schools. For FY 16, the MFP is funded at \$3.678 B; \$3.391 B in SGF and \$287.16 M in Statutory Dedications from the Support Education in LA First Fund (\$109.7 M) and Lottery Proceeds Fund (\$177.4 M). The FY 17 Executive Budget includes an adjustment of \$20.7 M for an anticipated increase of 4,595 students. Additionally, there is a \$5.2 M MOF swap replacing SGF with Lottery Proceeds funds (\$3.7 M) and SELF funds (\$1.5 M) based on the most recent Revenue Estimating Conference (REC) forecast. FY 17 recommended funding totals \$3.69 B; \$3.40 B SGF, \$181.1 M Lottery Proceeds Fund and \$111.2 M SELF Fund.

The FY 16 MFP included a 1.375% inflation adjustment, which was funded outside of the formula in a supplemental appropriation. HR 231 of 2015 (Edwards) urged and requested BESE to incorporate the supplemental funding into the FY 17 resolution. As such, the recommended budget annualizes this funding into the MFP base and it is anticipated that the proposed MFP for FY 17 to be considered by BESE on March 4 will incorporate this adjustment into the formula for a per pupil cost of \$4,015. This represents standstill funding for the MFP.

Department of Education

Department of Education (DOE) FY 17 funding totals \$1,563 B (\$51.6 M SGF, \$317.7 M IAT, \$57.4 M SGR, \$14.8 M Stat Ded and \$1,121 B Federal). This represents a total reduction of \$137.8 M (including \$84.9 M SGF). In addition to other budget adjustments, the SGF reductions made as part of the budget balancing plan total \$82.8 M (63%). To date the DOE is still formulating specific expenditure reduction plans. However, a 63% reduction in state funds will have a significant impact on the operations of the department; in particular **State Activities** will be reduced by \$21.7 M. In addition to the elimination of multiple contracts for the development of instructional materials, formative assessments, professional development and training, contracts tied to student testing will likely be affected. There are approximately five contracts associated with annual student testing totaling \$21.6 M (includes \$8.6 M

SGF). Annual testing is mandated by the federal Every Student Succeeds Act (ESSA) and failure to meet the federal testing requirement could jeopardize the receipt of over \$500 M in federal funds which are distributed to local school districts.

Subgrantee Assistance

Subgrantee Assistance will be reduced by \$40.7 M. Activities funded in this program include the LA4 Program and the Student Scholarship for Educational Excellence Program (SSEEP) (vouchers). *The Cecil J. Picard LA 4 Early Childhood Program* is the primary preschool program in the state, serving approximately 16,300 children. It provides up to ten hours of early childhood education and before and after activities daily to four-year-olds from disadvantaged families. The *Nonpublic Schools Early Childhood Development Program (NSECD)* provides low-income families the opportunity to attend state-approved private preschools and childcare centers and serves approximately 1,500 preschool children annually. Current per child funding is \$4,580.

For FY16, the LA4 Program is funded at \$76.9 M (\$9.4M SGF and \$75.5M TANF) and the NSECD is funded at \$7.3 M SGF for total LA4 program funding of \$84.3M. LA4 SGF expenditures are also used as the Maintenance of Effort (MOE) or matching funds to qualify the state's draw of federal Temporary Assistance for Needy Families (TANF) and Child Care and Development Fund (CCDF) block grants. Failure to certify state match and/or MOE could potentially reduce the availability of these federal funds.

SSEEP allows selected students to attend participating non public schools with tuition expenses paid by the state. FY 16 funding is \$42 M. There were 7,110 students enrolled in the first quarter ending 9/21/2015 for an annualized cost of \$41.7 M. Reductions to this program would result in students returning to public schools, which would subsequently increase the MFP costs but at a lower per pupil cost than what is currently being paid to voucher schools. As a result there would likely be a savings to the state. The state will pay \$8.3 M more to the voucher schools than it would have paid through the MFP in the current year.

FY 17 Higher Education

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The Existing Operating Budget as of 12/1/2015 totals \$2.634 B (including \$649.8 M SGF and \$350 M SAVE). The FY 17 Executive Budget recommends a total budget of \$2.243 B, reflecting net reductions of \$391.6 M in SGF equivalent (\$79 M SGF, \$358.2 M Stat Ded and \$5 M Federal funds) and a \$50.4 M increase in self-generated revenues from fees associated with Act 377 of 2015. Total Authorized Positions of 19,483 have been moved off budget.

Significant adjustments include the elimination of SGF (\$413.5 M) as part of the statewide reductions implemented to address the SGF shortfall. This represents a \$180.3 M reduction (for an average 25%) for institutions from the Higher Ed funding formula. While these reductions may be somewhat offset by the increase in fee revenue, not all institutions are impacted by the increases and any actual fee collections may be reduced by hardship waivers, fee exemptions and other forms of student aid.

Additional reductions of \$51.3 M in FY 16 line item appropriations impact equity formula funding for LCTCS (\$4.4 M), STEM funding for Southern and Grambling (\$6.5 M), Pennington Biomedical Research Center (\$3.9 M), operating support for LSUHSC in Shreveport (\$31 M), research programs at LSUHSC New Orleans (\$3.5 M), and the LSU Ag Center (\$2 M). Statutory dedications from the SAVE initiative (\$350 M) were replaced with SGF prior to the allocation of statewide adjustments.

TOPS funding for FY 16 totals \$265.2 M (\$200.1 M SGF and \$65.1 M Stat Ded). FY 17 projected need is \$293.3 M, however, all SGF funding has been eliminated (\$233.2 M) leaving the program funded solely with statutory dedications out of the TOPS Fund in the amount of \$60.3 M. Based on this 80% reduction, OSFA projects that of the current 46,155 recipients just over 18% (8,581) will continue to receive funding. GO Grant funding is anticipated to remain at a standstill level (\$26.4 M).

Table 8 on the next page illustrates the potential impacts of the SGF reductions on individual institutions and systems. The recommended budget does not allocate specific amounts of SGF to individual institutions or systems. Instead, the recommended budget assigns all the SGF to the Board of Regents (BOR) for allocation after passage of the appropriations bill. The SGF allocation for each institution/system in FY 17 contained in the table is based on the same relative portion of their SGF allocation from FY 16.

Furthermore, the table assumes that the Legislature will fully fund the SGF requirements related to the GO Grant Scholarship Program (\$26.4 M) within the LA Office of Student Financial Assistance (LOSFA) and will not fund the SGF portion of TOPS (\$233.2 M). Excluding LOSFA, the table assumes that remaining higher education institutions and systems will receive a 25% pro rata reduction in SGF. Some institutions may receive a higher reduction as a result of the \$51.3 M reduction identified in the paragraph above. In reality, the funding formula adopted by the BOR WILL NOT allocate funding to institutions and systems on a uniform basis. However, the table is intended to GENERALLY illustrate the magnitude of the reductions in SGF faced by institutions and systems in the proposed budget.

Higher Education - State General Fund Equivalent Summary by Institution and System (FY 16 Existing Budget to FY 17 Recommended Budget) Equal % Reductions in FY 17 Prior to Allocation of Formula Funding by Regents (Table 8)

Institution/System	FY16 Existing Operating Budget (EOB)	FY17 Recommended	% Change FY16 EOB to FY17 Rec.
LSU - Alexandria	\$5,109,749	\$3,838,686	-25%
LSU - Baton Rouge	\$113,909,238	\$85,574,022	-25%
LSU - Eunice	\$4,559,805	\$3,425,542	-25%
LSU - Shreveport	\$6,962,271	\$5,230,388	-25%
LSU HSC - New Orleans*	\$72,299,902	\$55,860,602	-23%
LSU HSC - Shreveport*	\$86,937,346	\$40,747,241	-53%
LSU Ag Center*	\$65,779,706	\$47,923,727	-27%
Pennington*	\$16,151,477	\$9,147,540	-43%
LSU System Total	\$371,709,494	\$251,747,747	-32%
SU Board*	\$7,730,623	\$2,448,117	-68%
SU - Baton Rouge	\$20,151,090	\$15,138,455	-25%
SU - New Orleans	\$5,730,139	\$4,304,752	-25%
SU - Shreveport	\$4,611,169	\$3,464,129	-25%
SU Law Center	\$3,905,120	\$2,933,711	-25%
SU Ag Center	\$2,346,654	\$1,762,918	-25%
SU System Total	\$44,474,795	\$30,052,082	-32%
UL Board	\$1,028,008	\$772,288	-25%
Grambling *	\$14,352,070	\$9,288,848	-35%
LA Tech	\$26,443,894	\$19,865,907	-25%
McNeese	\$16,979,189	\$12,755,572	-25%
Nicholls	\$14,427,254	\$10,838,437	-25%
Northwestern	\$19,803,107	\$14,877,033	-25%
Southeastern	\$28,564,495	\$21,459,003	-25%
UL Lafayette	\$43,624,028	\$32,772,439	-25%
UL Monroe	\$23,579,435	\$17,713,990	-25%
UNO	\$28,693,703	\$21,556,071	-25%
UL System Total	\$217,495,183	\$161,899,589	-26%
LCTCS Board	\$7,116,618	\$5,346,341	-25%
Baton Rouge CC	\$14,392,007	\$10,811,958	-25%
Bossier Parish CC*	\$10,454,466	\$5,987,675	-43%
Central LA Technical College	\$5,580,538	\$4,192,365	-25%
Delgado CC*	\$25,296,117	\$18,710,921	-26%
LA Delta CC	\$7,764,392	\$5,832,980	-25%
LA Technical College	\$10,678,364	\$8,022,094	-25%
L. E. Fletcher Technical CC*	\$2,878,496	\$1,977,318	-31%
Northshore Technical CC*	\$4,888,062	\$3,633,516	-26%
Nunez CC*	\$3,286,748	\$2,299,977	-30%
River Parishes CC*	\$3,249,145	\$2,243,875	-31%
South Louisiana CC	\$12,319,454	\$9,254,958	-25%
Sowela Technical CC*	\$6,315,028	\$4,145,869	-34%
LCTCS Online	\$1,289,307	\$968,589	-25%
LCTCS System Total	\$115,508,742	\$83,428,434	-28%
LOSFA			
Administration	\$3,261,171	\$2,449,946	-25%
Scholarships**	\$29,842,486	\$28,993,399	-3%
TOPS***	\$200,091,126	\$0	-100%
LOSFA Total	\$233,194,783	\$31,443,345	-87%
Board of Regents*	\$15,213,434	\$10,571,298	-31%
LUMCON	2,283,493	\$1,715,468	-25%
Statewide Total	\$999,879,924	\$570,857,964	-43%

*Includes reduction of one-time SGF appropriation.

**Maintains static funding of \$26.4 M for GO Grants as mentioned in the Executive Budget.

***There is no SGF available for TOPS, only \$60 M is available in Tobacco Settlement Fund, which represents an 80% reduction in TOPS funding.



FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This issue contains information from the recent REC meeting, the FY 16 replacement revenues, the FY 16 Mid-Year Reduction fund sweep, the Quality Jobs Program and the collection of Office of Motor Vehicles fees. Additional articles include state employee furloughs, coastal restoration projects, early childhood education program payments and an update on the Workforce and Innovation for a Stronger Economy (WISE) initiative.

The LFO would like to congratulate General Government Section Director Travis McIlwain on his appointment as Associate Commissioner for Finance and Administration at the Board of Regents. Fiscal Analyst Alan Boxberger has assumed the General Government Section Director position. We also are pleased that Willis Brewer is now a fiscal analyst with the office.

John D. Carpenter

FOCUS POINTS

Revenue Forecast Downgrade: REC meeting of 2/10/16

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The Revenue Estimating Conference (REC) met on February 10, 2016 and reduced overall state tax revenue forecasts for the current fiscal year (FY 16) and the ensuing fiscal year (FY 17) relative to the November 16, 2015 forecast. The result of the latest meeting was to reduce the state general fund revenue forecast by \$570 M for FY 16 and \$744 M for FY 17. These forecast downgrades are the result of continued weakening in oil and natural gas prices, as well as weakness in other revenues associated with the state's economy, especially corporate taxes, the personal income tax, and the general sales tax. Table 1 below displays the major forecast revisions for FY 16 and FY 17 as of the February 10, 2016 REC meeting compared to the previous forecasts in place. The combined downgrades of the November 2015 REC and the February 2016 REC are \$941 M for FY 16 and \$1.066 B for FY 17. In addition, for FY 16, \$28.2 M from the

Budget Stabilization Fund was recognized by the REC pursuant to the utilization of these funds in resolving the FY 16 mid-year deficit.

The total tax revenue downgrades are largely the effect of reductions in mineral revenues, corporate taxes, the personal income tax, and the general sales tax. These reductions are partially offset by

MAJOR REC REVENUE FORECAST REVISIONS
February 10, 2016 Table 1

Revenue Source (millions \$)	FY16			FY17		
	As of 11/16/15	As of 2/10/16	Forecast Change	As of 11/16/15	As of 2/10/16	Forecast Change
Personal Income	\$3,054.8	\$2,982.9	-\$71.9	\$3,221.5	\$3,071.3	-\$150.2
Sales, General	\$2,872.2	\$2,704.8	-\$167.4	\$2,840.6	\$2,700.5	-\$140.1
Corporate	\$588.1	\$359.3	-\$228.8	\$621.5	\$413.2	-\$208.3
Severance	\$468.0	\$420.2	-\$47.8	\$444.0	\$278.1	-\$165.9
Royalty	\$227.9	\$182.6	-\$45.3	\$275.2	\$176.7	-\$98.5
Gaming	\$921.7	\$921.8	\$0.1	\$900.7	\$906.6	\$5.9
Sales, Vehicle	\$411.6	\$407.2	-\$4.4	\$427.7	\$424.6	-\$3.1
Motor Fuels	\$621.8	\$616.9	-\$4.9	\$629.9	\$624.1	-\$5.8
Premium Tax	\$541.7	\$529.1	-\$12.6	\$555.8	\$541.5	-\$14.3
Earnings	\$23.0	\$23.0	\$0.0	\$21.0	\$21.0	\$0.0
All Other	\$1,233.0	\$1,238.7	\$5.7	\$1,225.0	\$1,242.0	\$17.0
Total Tax	\$10,963.8	\$10,386.5	-\$577.3	\$11,162.9	\$10,399.6	-\$763.3
Less Dedications	\$2,482.2	\$2,475.0	-\$7.2	\$2,179.7	\$2,160.2	-\$19.5
General Fund	\$8,481.6	\$7,911.5	-\$570.1	\$8,983.2	\$8,239.4	-\$743.8
Budget Stabilization Fund		\$28.2				

upgrades to other revenue sources such as the tobacco tax, lottery proceeds, 8g receipts, and vehicle license tax, but these upgrades are very minor. Decreased dedications diminish some of the downgrades, with the net of all revisions reflected in the general fund bottom line above.

While the oil price forecasts adopted in November 2015 appeared reasonable at the time, and incorporated a substantial drop in prices from the summer of 2015, it eventually became obvious that price forecasts were going to have to be downgraded again. The oil price forecast for FY 16 is now \$37.12/bbl, and for FY 17 \$30.00/bbl. These are price forecast drops of \$24/bbl for both FY 16 and FY 17, from the November forecast. Since the fiscal year began, oil price forecasts have been reduced by \$39/bbl for FY16 and \$35/bbl for FY 17. Natural gas prices were also revised down to \$2.09/mcf for FY 16 and \$2.19/mcf for FY 17; 99¢/mcf and 1.29¢/mcf lower than forecast at the beginning of the fiscal year. These price downgrades are reflected in mineral revenue reductions of \$93 M and \$264 M, for FY 16 and FY 17, respectively, for the February forecast, and \$224 M for FY 16 and \$429 M for FY 17 since the beginning of the fiscal year.

The weakened energy sector is certainly negatively affecting the overall economy as well, contributing to poorer performance in corporate taxes, personal income taxes, and general sales taxes. In addition, there are other issues with regard to these taxes that were discussed at the REC. Corporate tax weakness may be the result of a variety of issues, including uncertain reductions to credits and deductions enacted in the 2015 session, dramatic and prolonged oil and gas price weakness, a strengthening dollar foreign exchange rate, and successive amnesty programs (fiscal years 2010, 2013, 2014, and 2015) that may be suppressing corporate collections as liabilities that would have normally been received as base collections in FY 16 were collected as amnesty receipts in earlier periods. With respect to the reductions to credits and deductions enacted in the 2015 session, the first months expected to show any effects in net receipts are November and December. Through January, the cumulative position of the net corporate tax is a negative \$210 M, implying that a nearly \$800 M swing in net collections would be required to meet the November 2015 forecast. This seems unlikely in light of the fact that the estimated corporate revenue gains from the measures enacted in the 2015 session are only slightly over \$400 M. Whatever the revenue effects of those measures will ultimately be, they will not show up until the spring tax filing months of 2016, when one-half to two-thirds of corporate collections show up anyway.

With regard to the general sales tax, the suspension of exemption to 1% of state tax levy on business purchases of utilities is generating about 40% less revenue than expected. Much lower energy prices and slowing economic activity are contributing to this underperformance. In addition, about 40% of the receipts received are being paid under protest and being placed in escrow, pursuant to a legal challenge of the constitutionality of the tax. By mid-March the State should know whether taxpayers are going to continue their dispute through appeal or drop the dispute. However, negative employment growth and slowing income growth is the root of the weakness in the underlying base of sales tax collections, and is the major contributor to the downgrades of this tax.

The personal income tax was also downgraded to a very low 2% base growth, again, the result of the state's deteriorating employment and income situation. Boosting the growth by a point or so is the estimated effects of 2015 legislation limiting the credit allowed for taxes paid to other states, and prohibiting the claim of a child credit if a deduction for private school tuition is taken.

Only minor adjustments were made to gaming taxes as the Golden Nugget boat in Lake Charles has been fully annualized into the forecasts. Lottery projections for FY 16 now incorporate all transfers made in calendar year 2015 to support the FY 16 budget, including transfers that were mandated in the 2015 session of \$5.9 M from reserves and \$20 M from unclaimed prizes. Sales and transfers associated with the recent extremely large Powerball jackpot are incorporated into the FY 17 forecast, as these transfers will be made in calendar year 2017. The incremental effect of that jackpot may be some \$17 M. For the rest of 2016 and beyond lottery activity is assumed to settle back to its normal level, and extreme jackpots are not assumed in the forecasts. Finally, the projection for land-based casino receipts continues to reflect about \$8 M of downgrade associated with the distinct step down in gaming activity subsequent to the New Orleans indoor smoking ban that went into effect in April of 2015.

Premium tax receipts (excise license tax) were also downgraded, reflecting a weakening economy. However, further expansion of the Bayou Health Medicaid Managed Care Program is still built into the forecast. These premiums are subject to tax but the resulting tax proceeds, some \$101 M expected, are fully

dedicated to support of the Medicaid program, and do not result in additional general fund resources for other programs of the state budget.

Along with forecast reductions for FY 16 and FY 17, the entire forecast horizon baseline was reduced, reflecting materially lower mineral prices, as well as considerably weaker employment and income prospects for the near-term. Relative to the November 2015 forecast, general fund projections are now lower by \$945 M in FY 18, \$1.074 B in FY 19, and \$1.258 B in FY 20.

Out-year forecasts have to be taken with some caution, but risks to this new forecast path are likely weighted to the downside. (Oil and natural gas prices stay at depressed levels for a considerable time or even go lower, as evidenced by price movements since mid-2014.) In addition, the U.S. economy has yet to exhibit consistent robustness, and the world economy continues to struggle. While the revenue raising legislation enacted in the 2015 session dealt largely with longstanding provisions with considerable historical data available, the focus of the bills was largely the FY 16 budget and, by design, 60% of the expected revenue from these bills falls away by FY 20. Also, the three year expiration of some of these measures and the taxpayer recoupment of certain tax liability increases associated with some of the bills adds substantial uncertainty to the amounts of additional revenue expected in any particular year.

GENERAL GOVERNMENT

Update: Replacement Revenues in current year budget

Alan Boxberger, Gen. Govt. Section Director, boxbergera@legis.la.gov (J. Travis McIlwain)

Table 2 below is an updated list of the significant potential FY 17 financing replacements that will have to be made as a result of the FY 16 budget as it currently exists. As noted during the 2016 Legislative Session by the Legislative Fiscal Office, upon enactment of the FY 16 budget there was approximately \$542 M of replacement revenues in FY 16 that will have to be addressed in FY 17. However, due to the Governor's FY 16 Mid-Year Deficit Reduction Plan adopted in November 2015, this list has grown by approximately \$285 M.

Therefore, there is approximately \$830 M of revenues funding expenditures in FY 16 that will have to be replaced with another resource in FY 17 or those expenditures will have to be reduced.

FY 16 November Mid-Year Plan, Funds Sweeps Update

Alan Boxberger, Gen. Govt. Section Director, boxbergera@legis.la.gov (J. Travis McIlwain)

A major component of the FY 16 mid-year deficit elimination plan included the use of approximately \$89 M of funds sweeps to solve the \$487 M projected SGF imbalance. After the mid-year plan's statutorily dedicated authority reductions, resources are supposed to (continued on page 4)

State Agency	Potential Financing Replacement in FY 17 (in millions)	FY 16 Funding Sources
Medicaid Program	\$52.0	2013 Tax Amnesty Fund
Medicaid Program	\$114.6	Overcollections Fund (Various Sources)
Debt Defeasance - SGF	\$125.0	FY 14 Cash Position
Bond Premium - SGF	\$29.0	Net Bond Premium from 2014 D Sale
Bond Premium - SGF	\$37.7	Net Bond Premium from 2015 A&B Sale
WISE	\$24.3	CDBG Hurricane Disaster Recovery Funds
HCR 8 - SGF*	\$103.0	Suspends business utilities exemptions from adoption to 60 days after the 2016 Regular Legislative Session.
Riverboat Gaming Enforcement Fund transfer into SGF	\$18.8	Act 121 (HB 566) transfer into the SGF (fund sweep)
LA Fire Marshal Fund transfer into SGF	\$4.0	Act 121 (HB 566) transfer into the SGF (fund sweep)
Environmental Trust Fund Transfer into SGF	\$2.0	Act 121 (HB 566) transfer into the SGF (fund sweep)
Hazardous Waste Site Clean up Fund transfer into SGF	\$2.5	Act 121 (HB 566) transfer into the SGF (fund sweep)
Insurance Verification Fund transfer into SGF	\$3.0	Act 121 (HB 566) transfer into the SGF (fund sweep)
Minimum Foundation Program (MFP) (Lottery Proceeds Fund)	\$5.9	Lottery Reserves (LA Lottery Corporation)
Minimum Foundation Program (MFP) (Lottery Proceeds Fund)	\$20.0	Unclaimed prizes (LA Lottery Corporation)
TOTAL (Post Session)	\$541.8	
Rainy Day Fund Use	\$28.2	Governor's Mid-Year Deficit Elimination Plan
FEMA Reimbursements	\$17.4	Governor's Mid-Year Deficit Elimination Plan
Prior Year Funds Sweeps Not Yet Collected	\$10.3	Governor's Mid-Year Deficit Elimination Plan
Backfill: DHH Federal Resources	\$132.6	Governor's Mid-Year Deficit Elimination Plan
Backfill: Transocean Funds (BP Settlement)	\$4.0	Governor's Mid-Year Deficit Elimination Plan
Backfill: Various Transportation Funds	\$47.6	Governor's Mid-Year Deficit Elimination Plan
Backfill: 2013 Tax Amnesty Fund	\$23.0	Governor's Mid-Year Deficit Elimination Plan
Backfill: Other Various Funds Sweeps	\$21.6	Governor's Mid-Year Deficit Elimination Plan
TOTAL (Post Mid-Year Solution)	\$826.5	

*Revenue generated by HCR 8 in FY 16 appears likely to be less than listed above. An official determination of this will ultimately be made by the REC.

Note: These replacement revenues will likely be accounted for in the FY 17 Continuation Budget, which will be presented to the JLCB at the end of January.

be available as a result of these reductions for transfer to the SGF to close the deficit. However, to date the State Treasury has only transferred approximately 15%, or \$13 M, of these resources. R.S. 39:75(C)(2)(e) allows the Treasury to transfer the mid-year fund reductions from the statutorily dedicated fund to the SGF to solve a deficit. Due to the State Treasury's policy of not sweeping funds until the current year appropriation is met and/or due to funds not actually being available for transfer, not all of these funds sweeps have been transferred to the SGF to date. According to information provided by the Treasury, approximately 85% of these funds sweeps have not been transferred, or approximately \$76 M.

Some of the major funds sweeps associated with the plan that have not yet occurred include:

- \$10.2 M – Prior FY 15 Funds originally intended to solve the FY 15 Mid-Year Deficit, but have not been transferred to date;
- \$6.5 – Coastal Protection & Restoration Fund;
- \$46 M – Transportation Trust Fund

Note: The \$28.2 M from the Budget Stabilization Fund proposed for use within this plan has been transferred to the SGF.

Collection of the Office of Motor Vehicles Fines

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Last fall, many citizens received notices from the Office of Motor Vehicles (OMV) outlining a potential liability of reinstatement fees that are owed due to a prior lapse in automobile insurance coverage. The notice stated that any debt not paid within 60 days of the first notice would be referred to the Office of Debt Recovery (ODR) within the Department of Revenue (LDR) with a 25% fee added to the amount due, apparently without deference to further judicial review. The OMV collected about \$18.7 M from these mailings and referred 556,840 accounts to ODR (individual liability increased to the maximum of \$525 per account or \$292 M plus the ODR fee of 25% or \$73 M for a total referral of \$365 M).

As a result of Act 414 of 2015, final debt at the OMV is defined in R.S. 32:8(A)(3) this way: “‘Final’ means the amount due is no longer negotiable and that the debtor has no further right of administrative or judicial review.” However, according to R.S. 32:863.1(C)(1)(b) as amended by the same Act, after 60 days when the debt is presumably under the authority of the Office of Debt Recovery, “the fees imposed in this Section (by DPS) shall be owed even if the owner subsequently provides proof the motor vehicle was insured, and all such fees shall be considered final delinquent debt.”

The testimony of DPS officials before the Cash Management Review Board revealed that a debtor who disputes the fine with DPS but is rejected will still be referred to ODR after 60 days, even though further judicial review is available through District Court. This final debt is immediately subject to an income tax refund offset (state and federal), and presumably asset capture, including cash from a bank account, per the ODR collection tools. It appears that neither ODR nor DPS has the authority to waive this debt and the accompanying ODR fee, even with proof that the original liability did not exist or in light of further judicial review.

If the provisions of Act 414 are enforced according to the language, it appears that collections of the debt referred to ODR by DPS could be larger than first estimated because ODR is obligated to treat the debt as final, regardless of the legitimacy of the underlying liability. With nearly \$300M in fines transferred to ODR, an automatic retention of 2015 income tax refunds flagged by this final debt obligation will apparently be the first real indication of how much the state will collect using ODR collection tools, notwithstanding the immediate ability to garnish bank accounts. It is not known how much of the debt is reasonably collectible, though ODR estimates that about \$14.4 M will be made available in FY 16, in addition to the funds collected prior to ODR referral. The REC did not recognize any funds in addition to those already collected in keeping with historical methodology. In addition, it is not clear how further judicial review will be accommodated once the debt is referred to ODR.

Per the statute, any collections (except the ODR fee) will be deposited into the Debt Recovery Fund with the first \$25M earmarked for return to DPS upon appropriation. Any remaining collections are available to be distributed to other areas of the budget by appropriation from the Debt Recovery Fund. The REC has currently recognized \$21.5 M in FY 16 and \$0 M in FY 17 as anticipated revenue in the Fund. FY 16 appropriations total \$33 M with \$16 M in the DPS operating budget and \$17 M in the DPS capital budget. However, OMV has recently been made an agent of LDR and will collect the debt on behalf of ODR in its maximum amount, including the ODR fee. It is not clear whether the funds now being collected by OMV will also flow through the Debt Recovery Fund.

Mississippi Long Distance Sediment Pipeline and Bayou Dupont Project

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The Long Distance Sediment Pipeline (LDSP) is a marsh creation project in Jefferson and Plaquemines Parishes that utilized sediment sources from the Mississippi River (Photo 1) to create and nourish marsh, begins restoration of the Barataria Landbridge, and allows for a reusable pipeline corridor for future restoration projects. The project created and nourished approximately 415 acres of marsh and has a project cost of approximately \$66.3 M. Dredging sediment for the project began in November 2014 and was completed in September 2015. This project was funded through a Coastal Impact Assistance Program (CIAP) grant (\$33.6 M), which is a federal grant program and requires no state match and state surplus dollars (\$32.5 M).

The Bayou Dupont Marsh and Ridge Creation Project was bid along with the LDSP since it is located along the pipeline corridor. Using sediment dredged from the Mississippi River, approximately 277 acres of sustainable marsh was created, 93 acres of marsh nourished and approximately 20 acres (11,000 linear feet) of ridge along the southern shore of Bayou Dupont was restored to further sustain the marsh. The pipeline distance from the dredge to Bayou Dupont was 10 miles. Dredging for this project began in November 2014 and was completed in March 2015. To maintain the flow of sediment to the project location, three booster pumps were used. The cost of the project was \$38.3 M and was funded through the Coastal Wetlands Planning, Protection and Restoration Act (CWPPRA) program. CWPPRA is a federal program for restoration projects with a cost sharing of 15% state, 85% federal. Project submissions are evaluated and ranked on the basis of cost effectiveness, longevity, risk, supporting partnerships, public support, and conformity with CWPPRA goals.



Together the two projects (Photo 2) created 712 acres of marsh and ridges by using approximately 8.4 M cubic yards of sediment from the river. Sediment was dredged from two borrow areas in the Mississippi River. The pipeline corridor created will provide access for future projects to use sustainable sediment sources (river) to restore and nourish wetlands in an area where sediments are limited and provide an access for future long-distance sediment projects.



Act 126 of 2015 Interpretation for the Quality Jobs Program

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The Quality Jobs Program (QJP) pays an employee subsidy of 5% or 6% of payroll for each participating job created for 5 years (renewable for 5 more). The company must file an advance notice then has 24 months to file an application for the annual benefit, after which an application must be refiled each year that the QJP contract is in effect. Louisiana Department of Economic Development (LED) has 6 months to approve the application which means projects filing advance notice in November 2016 could receive their first payment

after June 30, 2018.

Act 126 of 2015 was believed to reduce the general fund impact of the Quality Jobs Program by cutting the payroll subsidy to a base of 80% of payroll for projects filing advanced notice between July 1, 2015 and June 30, 2018. Any projects filing advance notice prior to July 1, 2015 could continue to receive the original subsidy but were only allowed to claim payments after FY 16. The Act 126 fiscal note estimated general fund impact based on the assumption that any project filing advanced notice within the time frame of the effectiveness of the law (July 1, 2015 – July 1, 2018) would be subject to lower benefits for the entire QJP contract term of that project. Thus, it was assumed that all subsequent payments for that project filing an advance notice between the relevant dates was reduced, even those made after June 30, 2018. Additionally, older projects were expected to double-up on payments in FY 17 since program payments were delayed through FY 16. This led to a \$5M estimated general fund savings in FY 16 and a net SGF cost of \$4M in FY 17 as older projects doubled-up on benefits and new projects were subject to the lower rate. Once the delayed payments were incorporated, FY 18 was expected to save \$3 M as the reduction was implemented, with savings of \$4.5 M in FY 19 and \$5 M in FY 20. New projects were assumed to naturally phase into the program over numerous fiscal years based on historical construction and operational schedules.

Upon submission of promulgation documents for rules administering the program, LED has now interpreted the impact of Act 126 to potentially be minimal to the state fisc in the FY 17-FY 18 period by assuming that any annual benefit approvals made after July 1, 2018 would revert back to a base of 100% of payroll, regardless of the date advance notice was filed. This interpretation could increase the expected payment for those projects filing advance notice within the FY 16-FY18 period should they choose to delay payments to take advantage of the higher subsidies after June 30, 2018. This can be accomplished within current QJP timelines. During the debate of Act 126, had an analysis considering the start date of July 1, 2015 been applied to the advance notice filing while the end date of June 30, 2018 date been applied to the application for annual benefits, the fiscal note would have resulted in greater savings in FY 17 and FY 18 as projects delayed the applications for benefits. However, general fund program costs would balloon beginning in FY 19 as a backlog of projects applied for larger annual benefits under the higher rate structure.

Layoff Avoidance Measures: Furloughs and Work Hour Reductions

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To the extent that state agencies seek to avoid layoffs and staff reductions, agencies may look to implement furloughs and reduced work hours. The agencies enacting furloughs and work hour reductions must submit a layoff avoidance plan to the Department of Civil Service. The plan must provide the names and job titles of any employees impacted as well as any employee to be excluded and the reasons for their exclusion, the number of work hours reduced for each employee, the proposed effective dates and periods of time involved, the organizational unit, and the geographic areas impacted.

Furloughs

According to Department of Civil Service guidelines, a furlough is a mandatory, unpaid reduction of working hours for employees upon request of the state agency as part of a layoff avoidance plan. In order to be considered a furlough, the hours an employee is reduced must be taken continuously. A state employee can be furloughed for up to a maximum of 240 hours in a 12-month period with approval from the director of the Department of Civil Service. If it is determined that a furlough must be greater than 240 hours, the State Civil Service Commission can authorize furloughing employees up to 450 hours in a 12-month period with the option for even longer in extraordinary circumstances. It is important to note that if state employees are furloughed, impacted employees may be eligible to receive unemployment benefits, which could reduce the net savings to the state. Should a state employee qualify under existing unemployment standards, the employee could receive up to \$247 per week in benefits.

Bi-weekly Reduction in Work Hours

Another potential layoff avoidance measure is a biweekly reduction in work hours for agency employees. If an agency decides to implement this type of action, state employees' work schedules cannot be reduced more than 16 hours per biweekly payroll period in a 12-month period. State employees who fall under a reduced hours plan are not eligible to apply for unemployment benefits.

Table 3 to the right depicts Civil Service authorization necessary for the differing layoff avoidance options above.

Potential Savings

In order to estimate potential savings, Civil Service utilized the average hourly rate of all employees of state agencies within the appropriations bills (General and Ancillary) with the exception of the Office of State Police as that authority falls under the State Police Commission.

The hourly rate was then multiplied by 240 and 450 hours, respectively, and the estimates were provided to the Legislative Fiscal Office. It is important to note that this estimate accounts for potential salary savings only and does not include related benefits. Using an assumed 240-hour furlough of all eligible state employees, the state could reduce total annual expenditures by approximately \$339 M, with \$193.5 M in savings from classified positions and \$145.4 M in unclassified positions. Assuming a 450-hour furlough, the state could save approximately \$635.4 M annually, with \$362.8 M in savings from classified positions and \$272.6 M in unclassified. Under a 16-hour biweekly reduction plan, total annual savings would be approximately \$587.4 M.

Although the potential total savings from a continuous furlough and/or bi-weekly reduction are depicted in Tables 4 and 5, there are some limitations to this approach. For example, these calculations represent a point in time as salary calculations and employee counts change on a regular basis. In addition, the total potential savings includes all means of finance including federal funds. It is unknown at this time what the specific MOF breakdown is for these projected expenditure savings. The potential salary savings may be partially offset if state agencies exempt certain employees in the layoff avoidance plan and if employees apply for and qualify for unemployment benefits while under a furlough status. Thus, the actual amount of state effort savings would be less than the total savings depicted within these tables.

Note: State effort is defined as SGF, SGR, and statutorily dedicated funds.

Table 3		
Furlough and Reduction of Work Hours For State Employees authorized in HB 1 and Ancillary Bill		
	Approval	
Maximum	CS Director	CS Commission
240 Hours	Yes	No
450 Hours	No	Yes
16-Hrs Bi-weekly	Yes	No

Table 4		
Potential Furlough Reductions		
	Total Savings 240 Hours	Total Savings 450 Hours
Classified	\$193.5 M	\$362.8 M
Unclassified	\$145.4 M	\$272.6 M
Total	\$338.9 M	\$635. \$ M

Table 5	
Potential 16-Hour Bi-Weekly Reduction	
Positions	Total Annual Savings
Classified	\$335.4 M
Unclassified	\$252 M
Total	\$587.4 M

EDUCATION

Early Childhood Education Programs- CCAP Provider Payments

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Act 3 of 2012 required BESE to create an early childhood care and education network to manage and oversee all publicly funded programs that serve children from birth to age 5, and to align and raise standards across all programs including early learning centers, the Cecil J. Picard LA 4 Early Childhood Program, the Child Care Assistance Program (CCAP) funded through the Child Care Development Fund Block Grant (CCDF)), Early Head Start and Head Start. Act 898 of 2014 continued the implementation through the transfer of the CCDF Lead Agency Status from the Department of Children and Family Service (DCSF) to the Department of Education (DOE) effective 7/1/2015. DCFS will be responsible for the close out of FFY 15 (ending 9/30/15); funding priorities and budget allocations have been established by the DOE for FFY 16 (beginning 10/1/15).

DOE has implemented an increase in the CCAP provider payments based on a projected carry forward balance of approximately \$30 M in CCDF funds. Depending upon the level of participation and the extent to which families are eligible to receive the full state rate, these carry forward funds may be fully expended by the end of FY 18. At that time, CCDF funds will either have to be reallocated to continue the provider payments at the increased rates for participants at the existing level; the number of participants at the new rate structure will have to be reduced; or DOE will need to identify another revenue source to replace the loss of the carry forward funds.

Child Care Development Fund Block Grant (CCDF)

CCDF block grants are awarded to states and territories in three allocations; Discretionary Funds, Mandatory Funds, and Federal Share of Matching Funds. In order to draw the full allocation of these awards, states must provide Maintenance of Effort (MOE) and certify a State Match. Award amounts have remained fairly consistent over the past six fiscal years. Table 6 below provides the federal allocation as well as the state MOE and Match funding requirements.

Table 6

Child Care Development Fund (CCDF) Allocations

Federal	FFY09*	FFY10	FFY11	FFY12	FFY13	FFY14	FFY15
Discretionary	\$42,332,204	\$42,263,944	\$41,175,115	\$42,490,869	\$39,920,382	\$42,199,233	\$42,435,460
Mandatory	\$13,864,552	\$13,864,552	\$13,864,552	\$13,864,552	\$13,864,552	\$13,864,552	\$13,864,552
Match	\$24,528,630	\$25,068,153	\$25,683,519	\$25,886,746	\$25,933,929	\$22,418,892	\$26,161,046
Total CCDF	\$80,725,386	\$81,196,649	\$80,723,186	\$82,242,167	\$79,718,863	\$78,482,677	\$82,461,058
State							
MOE	\$ 5,219,488	\$ 3,909,579	\$ 5,219,488	\$ 5,219,488	\$ 5,219,488	\$ 5,219,488	\$ 5,219,488
Match	\$ 9,868,551	\$12,009,429	\$14,693,024	\$16,488,022	\$16,414,094	\$16,622,398	\$16,000,188
Total State	\$15,088,039	\$15,919,008	\$19,912,512	\$21,707,510	\$21,633,582	\$21,841,886	\$21,219,676

* Does not include ARRA allocations

The Code of Federal Regulations (CFR) provides the parameters for the administration and expenditure of these funds as noted below. Per CFR, each year the state shall report the amount of the grant it is unable to obligate; these remaining funds shall revert to the federal government for reallocation to other states.

Discretionary Funds shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations at the end of the succeeding fiscal year shall be liquidated within one year. Mandatory Funds shall be obligated in the fiscal year in which the funds are awarded and are available until expended. Matching Funds (both federal and state share) shall be obligated in the fiscal year in which funds are granted and liquidated no later than the end of the succeeding fiscal year.

Based on reports provided by DCFS, the state has obligated and expended the full amount of CCDF funds over the past six years in accordance with CFR, with the exception of FY 14. For that year, the amount of \$3,558,397 in Federal Match funds reverted due to the state's inability to certify the full amount of State Matching Funds. However, due to the spending timelines, the full amount of the annual CCDF award has not been fully obligated and expended before receipt of the next year's award resulting in a rolling carry forward balance.

Child Care Assistance Program (CCAP)

The Child Care Assistance Program (CCAP) helps low-income families pay for child care while working or attending school or training. Monthly payments are based on the number of hours the parents work or attend school or training, as well as the amount charged by the childcare provider, family size, and household income. Parents can select any Type III childcare center, school-based before and after school program, licensed childcare center licensed by the Department of Defense, registered Family Child Care Provider, or In-Home provider active in the CCAP provider directory. There are currently approximately 12,500 children enrolled in these child-care programs. Children are grouped into two categories; Toddler/Infant and Pre-K (3-4 Year Olds), some attend full time and others part time only, some attend during school year only and others during summer intersession as well.

Some households are categorically eligible for CCAP if they have members who are recipients of Family Independence Temporary Assistance program (FITAP) and who participate in Strategies to Empower People (STEP) Program; have children in foster care; or are experiencing homelessness. The program pays 100% of the state rate for these participants. Households that are not categorically eligible pay a co-pay of \$2 or \$3 depending upon their income status.

Total expenditures for subsidy payments have been reduced over the past six fiscal years, primarily as a result of the phase out of ARRA stimulus funding, reduced state general fund support, as well as the state's decision to redirect TANF funds previously used to subsidize the CCDF grant funding. Since FY 12,

subsidy payments have been funded solely with CCDF funds; \$46.6 M in FY 13, \$36.1 M in FY 14 and \$34.7 M in FY 15. The DOE FY 16 allocated budget for provider payments is \$44.9 M. Included in this allocation is a proposed increase in certain provider payments.

The DOE has indicated it anticipates using unobligated CCDF funds of approximately \$25 to \$30 M from the FFY 16 and FFY 17 awards to pay for the increase in subsidy payments. Cost projections are based on several assumptions including; number of children (12,500), income eligibility (amount of co-pay required), and level of participation (school year only or summer intersession included). Using the maximum participation assumption of 12,500 children, participating year round, with no co-pay requirements would require an annual budget of \$57.2 M or \$12.2 M over the current allocated budget. Alternatively, 12,500 children participating year round, with a \$3 co-payment for all participants would require an annual budget of \$49.6 M or \$4.7 M over the current allocated budget. To the extent unobligated carryforward funds are not available or actual expenditures equal actual revenues (projected FY 18) DOE will either have to reallocate CCDF funds currently used for other initiatives to continue the provider payments at the increased rates for participants at the existing level; the number of participants at the new rate structure will have to be reduced; or DOE will need to identify another revenue source to replace the loss of the carry forward funds.

Workforce and Innovation for a Stronger Economy (WISE) Initiative Update

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Funding and Expenditures

Act 803 of 2014 created the Workforce and Innovation for a Stronger Economy (WISE) Fund. The purposes of the WISE initiative are to increase degree and certificate production in high demand fields and encourage research and innovation to meet the state's future workforce and innovation needs. In FY 15, WISE was funded \$40 M from the following sources: \$16.85 M in SGF, \$12.15 M in IAT from the Community Development Block Grant (CDBG) Program (in the operating budget) and \$11 M in the statutorily dedicated Overcollections Fund (in the capital outlay bill) for Library, Instructional and Scientific Equipment. As of December 18, 2015 the institutions have expended a total of \$17.1 M. The breakdown of allocation, expenditure and remaining funds is noted in Table 7.

For FY 16 the prior year transfer amount of \$12.15 M from CDBG was increased to \$24.3 M and serves as the sole source of funding for the WISE initiative in the operating budget; there are no additional funds appropriated in capital outlay. Since the CDBG appropriation for FY 15 has not been expended and these funds are being reauthorized for FY 16, the appropriation represents an actual \$27.85 M reduction for WISE.

Table 7				
	General Fund	CDBG	HB2	Total
Total Funding Allocation	\$16,850,000	\$12,150,000	\$11,000,000	\$40,000,000
Total Expenditures	\$10,683,091	\$4,024,942	\$2,408,667	\$17,116,700
Funds Remaining	\$6,166,909	\$8,125,058	\$8,591,333	\$22,883,300
Note: The allocation and expenditure amounts listed above are from 7/1/14 to 12/18/15 and do not include the additional \$12.15 M budgeted in FY 16.				

Per CDBG guidelines, the additional \$12.15 M in CDBG funds is not available until the threshold of \$6 M in CDBG expenditures has been reached. Once \$6 M is expended in CDBG funds, the additional \$12.15 M will be available to institutions that are in the 53 parishes affected by Hurricanes Gustav and Ike. Currently, expenditure plans for the additional \$12.15 M have not been submitted by institutions to receive approval by the institution's management board and the Board of Regents (BOR). Institutions will have until the end of FY 19 to spend CDBG funding they receive.

CDBG Limitations

In January 2015, Louisiana's Disaster Recovery Unit (DRU) within the Division of Administration's (DOA) Office of Community Development provided guidelines on the eligibility of requested expenditures as well as the documentation necessary to verify reimbursement requests. Essentially, the guidelines limited expenditures to recruiting, advisory and mentoring support services, need based financial aid (all with a focus on low/moderate income (LMI) students) and equipment and expanded classroom training. Due to the restrictions imposed by CDBG guidelines, some institutions were required to revise their expenditure

plans, which delayed expenditures of the FY 15 allocation. Institutions must expend the funds first and submit reimbursement requests to the DRU.

As a result of these restrictions, systems had to revise the means of finance allocations based on the campuses eligibility to receive CDBG funds as well as whether proposed expenditures were aligned with allowable uses of federal funds. Due to the revisions based on CDBG eligibility, certain campuses received either SGF, Overcollections Funds, or both. As a result of restricted use of CDBG funds in hurricane impacted areas only, there are 9 institutions with a combined 13 campuses that are not eligible to participate in the WISE initiative once SGF and Overcollections Funds have been exhausted. They are identified in the Table 8 below.

Table 8			
System	Institution	Campus	Parish
LCTCS	Bossier Parish CC	Main Campus	Bossier
LCTCS	Louisiana Delta CC	Ruston Campus	Lincoln
LCTCS	Northwest LA TC	Shreveport-Bossier Campus	Caddo
LCTCS	Northwest LA TC	Mansfield Campus	Desoto
LCTCS	Northwest LA TC	Natchitoches Campus	Natchitoches
LCTCS	Northwest LA TC	Main Campus	Webster
LSU	LSU HSC Shreveport	Main Campus	Caddo
LSU	LSU Shreveport	Main Campus	Caddo
SUS	Southern Shreveport	Main Campus	Caddo
ULS	Grambling State	Main Campus	Lincoln
ULS	Louisiana Tech	Main Campus	Lincoln
ULS	Northwestern State	Main Campus	Natchitoches
ULS	Northwestern State	Shreveport Nursing Campus	Caddo



FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

This is a special edition of Focus on the Fisc that provides in-depth analysis of the Mid-Year Deficit Reduction Plan approved at the November meeting of the Joint Legislative Committee on the Budget. All of us at the Legislative Fiscal Office would like to wish you a Happy Holiday season.

John D. Carpenter

FOCUS POINTS

FY 16 Mid-Year Deficit Reduction Plan, Ending Year FY 15 Deficit Plan

For further information related to this article please contact Jodi Mauroner or Travis McIlwain who can direct you to an analyst for additional details.

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On 10/30/2015, the Fiscal Status Statement presented to the Joint Legislative Committee on the Budget (JLCB) by the Division of Administration (DOA) reflected a FY 15 end of year deficit of \$117.1 M. Additionally, on 11/16/2015 the Revenue Estimating Conference (REC) adopted a revised revenue forecast reducing FY 16 revenues by \$370.2 M. Pursuant to R.S. 39:75 and R.S. 39:76, on 11/20/2015, the DOA will present the FY 16 Mid-Year Deficit Elimination Plan to the JLCB to address the shortfall with total funding adjustments of \$487.3 M.

Based upon preliminary LFO analysis, the adopted plan reduces net state expenditures in the amount of approximately \$22.9 M, while

FY 16 Mid-Year Deficit Reduction Plan (Chart 1)
(in millions)

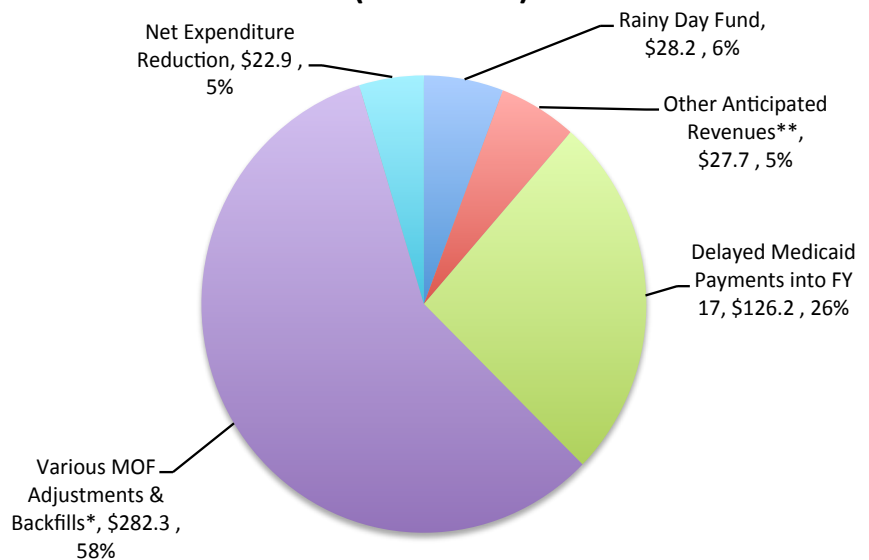


TABLE 1

Current Year Problem (in millions)

FY 15 Ending Year Deficit	(\$117.078)
FY 16 Anticipated Shortfall	(\$370.200)
Total Current Problem	(\$487.278)

Adopted Plan

Rainy Day Fund Use	\$28.164
FEMA Reimbursements**	\$17.402
FY 15 Prior Year Deficit Plan Sweeps**	\$10.289
Backfill: Federal Funds (DHH)	\$132.572
Backfill: Anticipated Excess SGR	\$2.007
Backfill: Transocean Settlement Funding	\$4.000
Backfill: Transportation Funds Sweeps	\$47.629
Backfill: Tax Amnesty Fund Sweep	\$23.000
Backfill: MATF Fund Sweep	\$53.500
Backfill: Other Various Funds Sweeps	\$19.577
Delayed Medicaid Payments into FY 17	\$126.228
Net Expenditure Reduction	\$22.909
Total Proposed Plan	\$487.278



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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. With the complexity of the budget issues facing the next governor and the legislature your feedback is strongly needed and encouraged. This issue provides a look at the reduced forecasts from the last REC meeting, interfund borrowing, retirement issues, Office of Technology Services award process and staff augmentation contracts, Public Service Commission lawsuit and bond anticipation notes.

John D. Carpenter

FOCUS POINTS

Revenue Forecast Downgrade: REC meeting of 11/16/15

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

The Revenue Estimating Conference (REC) met on November 16, 2015 and reduced overall state tax revenue forecasts for the current fiscal year (FY 16) and the ensuing fiscal year (FY 17) relative to the August 14, 2015 forecast that incorporated a variety of revenue measures enacted in the 2015 legislative session. The result of the latest meeting was to reduce the state general fund revenue forecast by \$370 M for FY 16 and \$322 M for FY 17. These forecast downgrades were partly the result of continued weakening in oil and natural gas prices, as well as weakness in other revenues, especially corporate taxes and general sales tax. Table 1 below displays the major forecast revisions for FY 16 and FY 17 as of the November 16, 2015 REC meeting compared to the forecasts in place after the 2015 session.

The total tax revenue downgrades are the effect of mineral revenue reductions, but also weakness in corporate taxes and the general sales tax. These reductions are partially offset by upgrades to other revenue sources, particularly personal income taxes, gaming taxes, and insurance premium taxes. Increased dedications absorb some of

the offsetting upgrades, with the net of all revisions reflected in the general fund bottom line.

While the oil price forecasts adopted in May of 2015 were reasonable at the time, and incorporated a substantial drop in prices from the summer of 2014, it eventually became obvious that price forecasts were going to have to be downgraded again. The oil price forecast for FY 16 is now \$48.02/bbl, and for FY 17 \$54.09/bbl. These are price forecast drops of nearly \$15/bbl and \$11/bbl, for FY 16 and FY 17,

MAJOR REC REVENUE FORECAST REVISIONS (Table 1)
As of November 16, 2015

Revenue Source (millions \$)	FY16			FY17		
	As of 8/14/15	As of 11/16/15	Forecast Change	As of 8/14/15	As of 11/16/15	Forecast Change
Personal Income	\$3,012.9	\$3,054.8	\$41.9	\$3,126.4	\$3,221.5	\$95.1
Sales, General	\$2,935.1	\$2,872.2	-\$62.9	\$2,919.2	\$2,840.6	-\$78.6
Corporate	\$789.5	\$588.1	-\$201.4	\$781.6	\$621.5	-\$160.1
Severance	\$519.8	\$468.0	-\$51.8	\$534.2	\$444.0	-\$90.2
Royalty	\$306.8	\$227.9	-\$78.9	\$349.9	\$275.2	-\$74.7
Gaming	\$871.7	\$921.7	\$50.0	\$871.7	\$900.7	\$29.0
Sales, Vehicle	\$404.5	\$411.6	\$7.1	\$409.2	\$427.7	\$18.5
Premium Tax	\$517.8	\$541.7	\$23.9	\$539.1	\$555.8	\$16.7
Earnings	\$30.9	\$23.0	-\$7.9	\$28.8	\$21.0	-\$7.8
All Other	\$1,877.1	\$1,852.8	-\$24.3	1848.5	\$1,852.8	\$4.3
Total Tax	\$11,266.1	\$10,961.8	-\$304.3	\$11,408.6	\$11,160.8	-\$247.8
Dedications	\$2,413.9	\$2,480.2	\$66.3	\$2,101.9	\$2,176.2	\$74.3
General Fund	\$8,852.2	\$8,481.6	-\$370.6	\$9,306.7	\$8,984.6	-\$322.1



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A Publication for the Louisiana Legislature by the Legislative Fiscal Office

November 2015

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FROM THE DESK OF THE FISCAL OFFICER

We are pleased to present the latest edition of Focus on the Fisc. With the complexity of the budget issues facing the next governor and the legislature your feedback is strongly needed and encouraged. This issue provides a look at the 10-year budget history of the state, a summary of certain Constitutional Amendments that were on the October 24th ballot, a discussion on the LSU Health Sciences Center in Shreveport, the Division of Administration's Family Medical Leave Act contract, coastal restoration projects and outstanding fund transfers. For members with questions regarding the Office of Motor Vehicles delinquent debt issue, please refer to the July and August 2015 editions of Focus on the Fisc for LFO analysis. The issues are available on the LFO website (lfo.louisiana.gov), under Publications.

John D. Carpenter

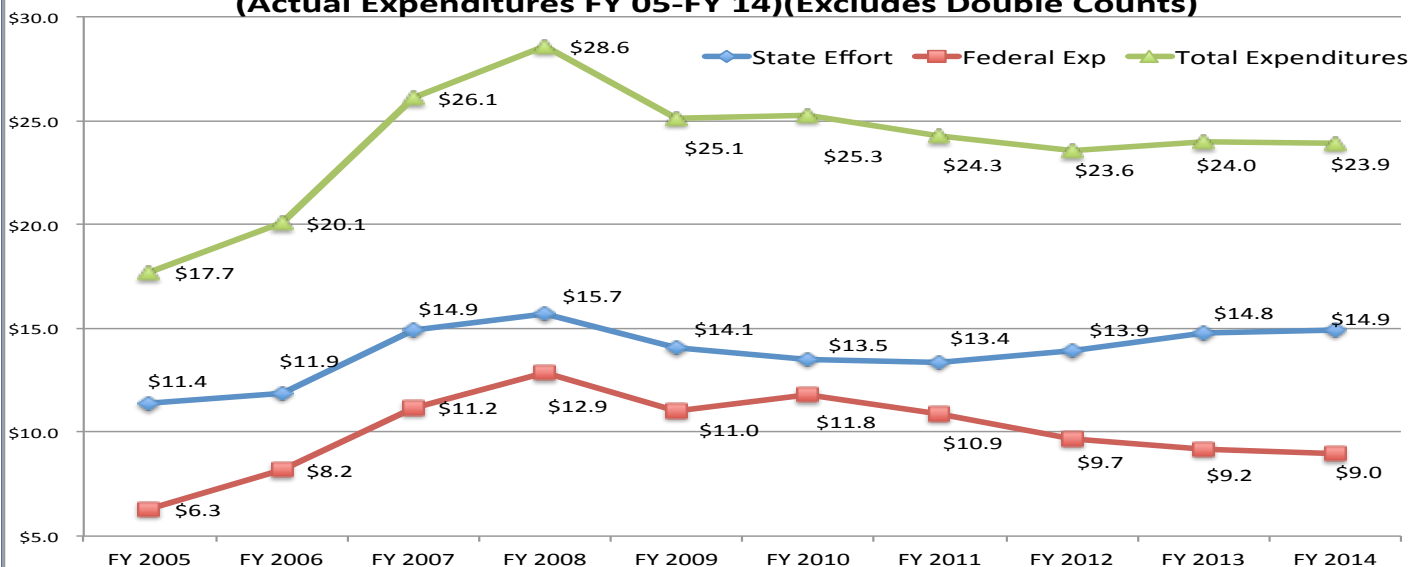
FOCUS POINTS

10-Year Budget History (Actuals FY 2005 – FY 2014)

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov
J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

In response to questions received from members, the Legislative Fiscal Office is providing you with a depiction of the 10-Year Actual expenditure history of the state's budget. Since FY 05, the state's total budget has grown approximately 35%, or \$6.2 B, which is largely due to federal disaster dollars flowing into the state. While the overall total state budget has grown this much, state effort (excluding double counts and federal funds) has grown approximately 31%, or \$3.5 B. However, when you consider the compound annual growth rate of total expenditures and state effort, the growth is 2.7% per year for state effort and 3% per year for total expenditures.

10-Year Budget History (Graph 1)
(Actual Expenditures FY 05-FY 14)(Excludes Double Counts)





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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This issue provides information on Department of Revenue seed awards, TOPS funding, Federal fund liability within the Women, Infant and Children program and FY 15 revenue collections.

The issue also contains information regarding the Racing Commission/Board of Regents transfer, the OGB fund balance, the August mid-year reduction and the Office of Juvenile Justice deficit.

The October edition of Focus on the Fisc will include a summary of certain Constitutional Amendments that are on the October ballot.

FOCUS POINTS

The Department of Revenue (LDR) May Require SGF in FY 16

Deborah Vivien, Economist/Fiscal Analyst, viviend@legis.la.gov

For FY 16, LDR was appropriated \$96.1M, which is 14% less than the \$109.4M appropriated in FY15 (including carryforwards to date). In FY 15 and during the crafting of the FY 16 budget, the agency anticipated enough self-generated revenue from fees, fines and penalties to fully fund the agency (less about \$1.5 M from other sources). However, actual SGR collections available to the agency for FY 15 were less than expected, which lowered base expectations in FY 16 even with the passage of legislation that increased agency fees in FY 16 by an estimated \$9.4 M (Acts 128 and 130 of 2015). In years past, LDR was allowed to retain amnesty SGR which provided a revenue alternative each fiscal year to the use of SGF. In FY 14 with the first amnesty program and again in FY 15, a portion of the agency's SGR was swept for use elsewhere in the state budget. In FY 16 the agency had minimal carryforward revenue to begin the year which resulted in a seed being requested in place of anticipated collections and why SGF may be required by the end of FY 16.

The agency has been awarded a SGF seed of \$9.7 M as of September and is expected to require an additional \$9.7 M SGF seed before the end of the fiscal year. However, some areas of potential SGR collections in excess of forecast center around fees within the Office of Debt Recovery, which is anticipating a larger amount of debt submissions during FY 16, and the 2016 amnesty since all other recent amnesty programs have generated more revenue than first anticipated. In addition, non-amnesty SGR collections through August are 28% ahead of last year, which will surpass the current SGR estimate if the pace is maintained throughout the fiscal year. However, like other SGF seeds, if the agency's SGR is not collected as expected and the seed cannot be repaid, LDR will require about \$20M in SGF as a supplemental appropriation or the amount will become a negative contribution to the SGF balance at the end of FY 16.

All seeds are essentially an advance of SGF acting as a bridge loan for other revenue anticipated to be received during the year. However, this seed is currently utilizing borrowable funds in place of SGF because SGF collections are not sufficient. The seed repayment ideally will occur from SGR collections but, if those collections do not materialize, it will become part of the statutory repayment of those funds using



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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This issue contains articles on changes to the Budget Stabilization Fund from the 2015 session, the BP Oil Spill Settlement, debts owed to the Office of Motor Vehicles, an overview of the 2015 session related to transportation and fee increases in the Department of Natural Resources and the Department of Agriculture and Forestry.

I would like to recognize two members of our staff, Shawn Hotstream and Matthew LaBruyere who presented two of the five comparative data reports at the 69th Annual Southern Legislative Conference (SLC) recently held in Savannah, GA. Pictures from the presentations are of Matthew presenting his Corrections Report and of Shawn presenting his Medicaid Report.



As stated before, this is your publication. If there is any way it can be made more useful including additional topics for research and inclusion in one of our upcoming publications, please contact us.

John D. Carpenter

FOCUS POINTS

Budget Stabilization Fund, 2015 Session

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

During the recent legislative session in regard to the Budget Stabilization Fund (rainy day fund), one statutory change was enacted and one proposed constitutional amendment will be submitted to the voters this fall. The statutory change is fairly straightforward, while the constitutional proposal is somewhat complicated.

Act 257 (SB 122) increased the base amount of mineral revenue to \$950 million per year from \$850 million. Mineral revenue (severance tax, royalty receipts, bonus payments, and rental payments) received by the state is first allocated to parish severance and royalty distributions as provided by Article VII, Section 4, Paragraphs (D) and (E). Then, revenue up to the base amount increment flows to the state general fund. Excess mineral revenue received above the combined parish distributions and base amount is subject to deposit into the Budget Stabilization Fund, up to the annually calculated maximum balance of the Fund. The base amount can be changed every ten years by formula, and was last changed eleven years ago in 2004 by Act 11 of 2004 1st Extraordinary Session.

To the extent there is excess mineral revenue, this latest increase in the base amount reserves up to an additional \$100 million of those excess revenues for the state general fund rather than subject them to deposit into the Budget Stabilization Fund. However, based on the May 2015 official revenue forecasts, there is no expected excess mineral revenue for FY 16 and FY 17. In FY 18, FY 19, and FY 20 the current forecast expects \$4.4 million, \$7.2 million, and \$9.3 million of excess revenue, respectively. Even if there were excess mineral revenue expected in FY 16 and FY 17, it would flow to the state general fund anyway, pursuant to R.S. 39:94(C)(4)(b) which prohibits automatic deposits of mineral revenue into the Budget



FOCUS ON THE FISC

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FROM THE DESK OF THE FISCAL OFFICER

Your Legislative Fiscal Office is pleased to present the latest edition of Focus on the Fisc. We hope you enjoy it and encourage feedback. This publication (Volume 4, Issue 1) is one of two issues to be released this month. This issue is focused on the FY 16 major budget actions and revenue measures enacted from the 2015 Legislative Session.

The next publication will be released in late July and marks the beginning of the regular monthly release of Focus on the Fisc. As you read Focus on the Fisc remember that it is your publication. We welcome your feedback to help the Fiscal Office more useful to you.

FOCUS POINTS

Revenue Overview (2015 Session)

Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

A number of bills affecting state revenue collections were enacted this past legislative session. As a whole, these bills are estimated to generate \$719.9 M of additional tax revenue in FY 16. These additional revenues largely support the supplemental appropriations contained in Section 18(D) of the general appropriations bill. A substantial portion of those revenues, \$464.4 M, will provide budget support through dedicated means of finance, leaving \$255.5 M as state general fund-direct financing. Table 1 on the next page lists the major revenue generating bills along with each FY 16 revenue estimate and other key aspects of the bills.

Various aspects of these measures are noteworthy in addition to the estimated amount of revenue associated with them. Probably the most noteworthy aspect of a number of the bills is their applicability provision. Those measures applicable to "all returns from July 1" (Acts 103, 109, 123, 125 and 133) apply their changes to the affected credits, deductions, or claims received by the state on or after 7/1/2015, regardless of the tax year to which the tax return or claim relates. This application was required to generate the level of revenue necessary in FY 16, and was implicit in the Executive

Budget funding proposal that began the budget construction process. Without this applicability, the majority of revenue associated with these particular bills would not be collected until FY 17 and later.

Much of this delayed effect is attributable to returns filed pursuant to an extension, especially corporate returns and complex individual returns. To ameliorate the effect on those filers in the first year of implementation, returns filed under extension in FY 16 are allowed to recoup the disallowed portion of the credit or deduction evenly over a three-year period on returns for each of the taxable years beginning during calendar years 2017, 2018, and 2019 (Acts 109, 123 and 125). For many filers, this effectively delays recoupment into FY 18, FY 19, and FY 20. In addition, amended returns filed on or after 7/1/2015, with properly claimed credits or deductions on the original return filed prior to 7/1/2015, are not subject to the changes in these bills.

While most of the bills make permanent changes (Acts 94, 103, 109, 110, 126, 131, 133, and 147), certain measures are only effective for three years (Acts 109, 123, 125 and 134), and the suspension of exemption to

Table 1
Summary of Major Revenue Bills
(in millions)

		<u>FY 16</u>	<u>Duration</u>	<u>Applicable</u>	<u>Recoupment</u>
Act 125 / HB 629	Income & Franchise Tax Credits Cut 28%	\$31.5	3 years	All Returns From July 1	3 years
Act 123 / HB 624	Corporate Income Tax Exclusions and Deductions Cut 28%	\$122.0	3 years	All Returns From July 1	3 years
Act 133 / HB 805	Five-Year Carryforward of 25% of Inventory Credit	\$129.0	Permanent	All Returns From July 1	None
HCR 8	Suspend Business Utilities Exemption to 1% of Sales Tax	\$107.2	8/27/2016	Transactions From July 1	None
Act 94 / HB 119	Increase Cigarette Tax by 50¢/pack plus vapor products	\$106.4	Permanent	Transactions From July 1	None
Act 109 / HB 402	Equalize Credit for Taxes Paid to Other States	\$34.0	3 years	All Returns From July 1	3 years
Act 103 / HB 218	Eliminate Net Operating Loss Carry-Backs	\$29.0	Permanent	All Returns From July 1	None
Act 131 / HB 779	Cap Solar Tax Credit Program	\$19.0	Permanent	All Claims From Jan 1	None
Act 126 / HB 635	Enterprise Zone Restrictions	\$5.0	Permanent	All Claims From July 1	None
Act 134 / HB 829	Modify / Cap Film Tax Credit Program	\$77.0	3 years	All Claims From July 1	None
Act 110 / HB 445	Certificates Of Title Tax Increase	\$59.5	Permanent	Transactions From July 1	None
Act 147 / SB 271	Reduce Motor Fuels Tax Remittance Discounts	\$6.0	Permanent	Transactions From July 1	None
Act 109 / SB 93	Prohibits Education Credit If Tuition Deduction Taken	\$2.3	Permanent	From Tax Year 2015	None
	Interaction Between Act 123 and Act 103	(\$8.0)			
	Total Additional Revenue Generated	\$719.9			
HCR 8	Business Utilities Sales Tax Dedicated To Tourism District	(\$4.2)			
Act 147 / SB 271	Motor Fuels Discounts Dedicated To TTF	(\$6.0)			
Act 94 / HB 119	Tobacco Tax Dedicated To Medicaid Fund	(\$106.4)			
	Tobacco Tax Reduces Existing Dedications	\$2.2			
Act 109 / SB 93	Higher Education Initiatives Fund Dedication	(\$350.0)			
	Net Additional General Fund Revenue	\$255.5			

1% of state sales tax on purchases of business utility services (HCR 8) is effective for only a little more than one year. The temporary nature of these measures results in a step-down of expected revenue in FY 17, with significant fall-off in subsequent years as recoupment provisions kick in and then outright inapplicability occurs. Thus, a substantial portion of the revenue raised for FY 16 will have to be replenished for subsequent fiscal years, or comparable budget reductions will have to be made.

Modifications to the inventory tax credit (Act 133) are noteworthy in that the bill actually converts 25% of the credit benefit that would otherwise be refundable to nonrefundable status and allows a five-year carry-forward of annual unrealized benefits. While this exposes the state fisc to these benefits in the future with regard to individual filers, in the aggregate there is substantially more annual credit benefit available than annual tax liability to offset. Therefore, the carryforward portion is essentially a permanent net revenue gain to the state. Something similar was done with the elimination of the net operating loss carry-back option (Act 103). An additional five years of carryforward option was allowed to an existing fifteen-year carryforward option. Since there is substantially more net operating loss deduction available than annual tax liability to offset, even with existing fifteen-year carryforward option, the changes provided by this bill also result in essentially a permanent net revenue gain to the state. While not expected to materially effect net state revenue receipts, the ten-year carryforward option available to taxpayers claiming film tax credits was also shortened to five years (Act 134).

Other noteworthy aspects of particular measures include program level maximum amounts authorized to be realized each year. For example, the costs of the overall film tax credit program are capped at \$180 m per fiscal year (Act 134). All claims for tax credit benefits filed during FY 16, FY 17, and FY 18 will be paid in full until the program maximum for each fiscal year is reached. Excess claims in each year are put first in line for the following year's program maximum. The direct state buyback of credits at 85% of face value is also completely prohibited during FY 16. The solar tax credit program is capped at \$19 M for outstanding leased system claims during FY 15, then a \$10 M cap is in place for leased and sale systems each in FY 16 and FY 17, dropping to \$5 M each for claims filed before 1/1/2018 (Act 131). The Enterprise Zone program is denied to retail trade and food and drinking establishments starting with FY 16, but applicants with advance notifications filed prior to July 1 are still allowed their benefits (Act 126). The state gains revenue in FY 16 by requiring these participants to wait until FY 17 to claim benefits, but then net revenue losses occur in FY 17 as these benefit claims catch up.

A technical downward adjustment has to be accounted for due to the interaction of two of the measures. Act 103 completely eliminates the carry-back option for net operating loss deductions; by itself generating some \$29 M. Act 123 reduces net operating loss deductions by 28%; by itself generating \$122 M. The revenue effects of those two measures cannot occur in their entirety simultaneously. Combined, the two measures generate some \$8 M less than the sum of their stand-alone effects.

A large portion of the total revenue generated finances the budget by flowing certain amounts through special funds or mechanisms. Of the sales tax collected on business utility transactions (HCR 8), \$4.2 M is actually revenue to the Tourism Promotion District, traditionally treated as a dedication of state receipts in the budget process. All \$6 M of the additional motor fuels tax remittances attributable to the reduced discounts for timely filing (Act 147) flow to the Transportation Trust Fund. Similarly, all \$106.4 M expected from the tax increase on cigarettes and vapor products (Act 94) is budgeted through the newly created Tobacco Tax Medicaid Match Fund. As a side effect of the negative behavioral effect of the cigarette tax increase, the average yield of existing levies are reduced, and two existing dedications that are funded by existing levies are consequently reduced by \$2.2 M. This has the effect of enhancing net general fund receipts.

The \$350 M dedication of funds through the existing Higher Education Initiatives Fund is associated with what was referred to during the session as the SAVE credit (Student Assessment for a Valuable Education, within Act 109). This measure was purported to offset a portion of the additional tax revenue generated during the session by granting a credit against higher education costs for all students enrolled in public higher education institutions. An assessment is imposed on enrollees and a matching credit is granted based on the average Louisiana household liability for income taxes, sales taxes, and motor fuels taxes. This amount is multiplied by total enrollees to determine an aggregate amount to provide higher education, limited to a maximum of \$350 M per year. At the individual level, no assessment is paid by enrollees and no tax liabilities are reduced. Since the total amount of funds that flows through this special fund is determined by the annual amount appropriated, this is essentially a re-characterization of general fund revenue as dedicated revenue.

Finally, in addition to the tax revenues discussed above, various additional fees and charges were also enacted. These totaled some \$46.7 M for FY 16, with \$7.5 M associated with statutory dedications and \$39.2 M of agency SGR. These funds will support the operations of various specific agencies and programs.

GENERAL GOVERNMENT

FY 16 SGF Post-Session Status

J. Travis McIlwain, Gen. Govt. Section Director,
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Act 16 (General Appropriations Bill), Act 121 (Funds Bill), Act 56 (Supplemental Appropriations Bill) and Act 26 (Capital Outlay Bill) all played a role in crafting the FY 16 operating budget. Act 121 transfers approximately \$231 M of various resources for utilization in the FY 16 budget or the FY 15 budget via the Supplemental Appropriations Bill (see note below). Other noteworthy bills that played a role in the FY 16 budget development are the revenue measures discussed in the Revenue Overview (2015 Session) included within this edition. As of this writing, these additional revenues have not yet been incorporated into the official SGF revenue forecast for FY 16. Based upon the latest adopted revenue forecast, the enrolled fiscal notes (accounting for potential interactions), the FY 16 SGF budget appropriates approximately \$4.6 M more than anticipated revenue (See Table 2).

Note: The Supplemental Appropriations Bill (Act 56) provides various appropriations for FY 15 that indirectly impact the FY 16 budget. The legislation appropriates various resources (prior year state surpluses, Overcollection Fund and SGF) for Debt Defeasance, the Budget Stabilization Fund and the Unfunded Accrued Liability (UAL).

Table 2

FY 16 SGF FISCAL STATUS

FY 16 SGF REVENUE:

	FY 2016
SGF REC - 5/14/2015	\$8,596,300,000
Act 103 (HB 218)	\$29,000,000
Act 109 (HB 402)	\$34,000,000
Act 110 (HB 445)	\$59,500,000
Act 123 (HB 624)	\$122,000,000
Act 125 (HB 629)	\$31,500,000
Act 126 (HB 635)	\$5,000,000
Act 131 (HB 779)	\$19,000,000
Act 133 (HB 805)	\$129,000,000
Act 134 (HB 829)	\$77,000,000
HCR 8	\$103,000,000
Act 140 (SB 93)	\$2,300,000
Net Interactions Among Revenue Bills	(\$5,800,000)
Riverboat Gaming Enforcement Fund Transfer (Act 121)	\$1,800,000
LA Emergency Response Network Fund Transfer (Act 121)	(\$200,000)
Riverboat Gaming Enforcement Fund Transfer (Act 121)	\$17,000,000
LA Fire Marshal Fund (Act 121)	\$4,000,000
Environmental Trust Fund (Act 121)	\$2,000,000
Hazardous Waste Site Cleanup Fund (Act 121)	\$2,500,000
Insurance Verification Fund (Act 121)	\$3,000,000
SAVE Program SGF Dedication (Act 140)	(\$350,000,000)
Total FY 16 SGF Resources Available	\$8,881,900,000

FY 16 SGF REQUIRED/APPROPRIATED EXPENDITURES:

Debt Service (Non-Appropriated Req.)	\$193,397,230
Interim Emergency Board (Non-Appropriated Req.)	\$1,758,021
Revenue Sharing (Non-Appropriated Req.) (Act 132)	\$90,000,000
General Appropriations (Act 16)	\$8,368,195,745
Ancillary Appropriations (Act 46)	\$0
Judicial Appropriations (Act 66)	\$159,838,908
Legislative Appropriations (Act 76)	\$73,352,811
Capital Outlay Appropriations (Act 26)	\$0
Total FY 16 SGF Requirements/Appropriations	\$8,886,542,715
FY 16 SGF Revenue Less Requirements/Appropriations	(\$4,642,715)

FY 17 Replacement Revenues

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Although HR 7.19 contains a definition of “one-time money,” the rule itself is not indicative of the financing decisions that will have to be made in FY 17 relative to the current structure of the FY 16 budget. Due to this issue, the LFO is providing you with a list of the potentially significant FY 17 financing replacements that will have to be made as a result of the proposed FY 16 budget. Table 3 below is a listing of resources being utilized in FY 16 that will likely require another revenue source in FY 17. The \$542 M of financing needs are in addition to any other continuation budget requirements not yet resolved in the FY 16 budget. These additional funding requirements will likely result in an anticipated funding shortage in FY 17 that could exceed \$542 M. The \$542 M potential financing replacement in FY 17 is a reduction compared to the amount of FY 16 financing replacement of approximately \$1 B.

Table 3

State Agency	Potential Financing Replacement in FY 17	FY 16 Funding Sources
Medicaid Program	\$52,000,000	2013 Tax Amnesty Fund
Medicaid Program	\$114,556,548	Overcollections Fund (Various Sources)
Debt Defeasance - SGF	\$124,958,094	FY 14 Cash Position
Bond Premium - SGF	\$29,041,496	Net Bond Premium from 2014 D Sale
Bond Premium - SGF	\$37,720,878	Net Bond Premium from 2015 A&B Sale
WISE	\$24,300,000	CDBG Hurricane Disaster Recovery Funds
HCR 8 - SGF*	\$103,000,000	Suspends business utilities exemptions from adoption to 60 days after the 2016 Regular Legislative Session.
Riverboat Gaming Enforcement Fund transfer into SGF	\$18,800,000	HB 566 transfer into the SGF (fund sweep)
LA Fire Marshal Fund transfer into SGF	\$4,000,000	HB 566 transfer into the SGF (fund sweep)
Environmental Trust Fund Transfer into SGF	\$2,000,000	HB 566 transfer into the SGF (fund sweep)
Hazardous Waste Site Clean up Fund transfer into SGF	\$2,500,000	HB 566 transfer into the SGF (fund sweep)
Insurance Verification Fund transfer into SGF	\$3,000,000	HB 566 transfer into the SGF (fund sweep)
LA Lottery Corporation	\$5,900,000	Lottery Reserves
LA Lottery Corporation	\$20,000,000	Unclaimed prizes
TOTAL	\$541,777,016	

*The Table above assumes that the Revenue Estimating Conference (REC) will recognize the SGF generated from HCR 8 as part of the overall sales tax revenue forecast.

Ad Hoc SGF Equivalent Resources (Overcollections Fund) Utilized in FY 15 & FY 16

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Act 16 (HB 1) includes an aggregate Overcollections Fund allocation in the amount of \$114,556,548, which is currently appropriated in the Medicaid Program. The original source of these funds is various anticipated FY 15 collections that may be carried forward into FY 16 for expenditure. Information provided on the next page is a depiction of the Overcollections Fund status based upon the latest adopted REC revenue forecast, Act 121 (HB 566), Act 56 (HB 800) and Act 16 (HB 1).

<i>Adopted Revenue Forecast (5/14/2015)</i>	<i>FY 15 Revenues</i>
FY 15 Beginning Balance	\$217,500,000
Revenue Carry Forward from FY 14	\$102,240,000
Self Insurance Fund (Act 121)	\$12,000,000
Insurance Verification System Fund (Act 121)	\$25,576,380
Riverboat Gaming Enforcement Fund (Act 121)	\$11,874,770
LA Building Corporation (Act 121)	\$500,000
Dept. of Revenue SGR (Act 121)	\$11,100,000
Employment Security Admin. Account (Act 121)	\$3,540,000
Penalty & Interest Account (Act 121)	\$4,200,000
Telephone Company Property Assessment Relief Fund (Act 121)	\$50,000,000
LA Public Finance Authority (LPFA)(Act 121)	\$2,300,000
Act 646 of 2014, GEMS Transfer	\$17,972,573
<u>Total FY 15 Projected Fund Revenues</u>	<u>\$458,803,723</u>
<i>FY 15 Overcollections Expenditures</i>	<i>FY 15, Act 14</i>
Act 14 Enrolled	\$270,101,856
BA-7 (Mid-Year Cut 1 Back Fill, Dec. 2014)	\$47,000,000
BA-7 (Mid-Year Cut 1 Back Fill, April 2015)	\$28,502,827
BA-7 (Mid-Year Cut 2 Back Fill, Jan. 2015)	\$32,506,438
Less: HB 800 (Act 56) House Appropriations Committee Action	<i>(\$53,436,628)</i>
HB 800 (Act 56) House Floor Action	\$17,972,573
HB 800 (Act 56) Senate Committee Action	\$6,196,965
Less: HB 800 (Act 56) Senate Floor Action	<i>(\$5,300,000)</i>
<u>FY 15 Total Overcollections Fund Appropriation</u>	<u>\$343,544,031</u> (recurring)
FY 16 Overcollections Expenditures (HB 1 Enrolled)	\$114,556,548
<u>Total FY 15 & FY 16 Appropriated/Recommended</u>	<u>\$458,100,579</u>
Current Projected Unappropriated Fund Balance	\$703,144

Based upon Act 16 (HB 1), Act 56 (HB 800), Act 121 (HB 566) and the latest adopted revenue forecast, the Overcollections Fund has an FY 16 ending year unappropriated fund balance of approximately \$0.7 M.

Note: Based on the latest adopted revenue forecast (5/15/2015), there are currently no anticipated FY 16 resources projected to be collected for the Overcollections Fund. The unexpended FY 15 resources will be utilized to fully fund the FY 16 appropriation of approximately \$114.6 M.

SGF FY 14 Prior Year Cash Position

As previously discussed, one of the major resources utilized to finance the FY 16 budget includes the FY 14 SGF prior year cash position (\$178,511,565). These resources were utilized for the debt defeasance (\$124,958,094), deposit into the Budget Stabilization Fund (\$44,627,892) and payment toward the UAL (\$8,925,579).

Note: The surplus calculation method utilized by the Division of Administration (DOA) was modified in the Fall 2014. Based on the FY 14 SGF Fiscal Status Summary presented by the DOA to the Joint Legislative Committee on the Budget on 10/17/2014, FY 14 SGF expenditures were approximately \$140.6 M greater than SGF receipts, budgeted transfers and carry-forwards. This operational budget deficit was financed by the SGF's cash liquidity, accumulated over a number of years from unexpended fee and interagency transfer collections that revert to the SGF at the end of the fiscal year. These funds make up the cash position of the SGF and are comparable to the checking account balance that many households have at the end of each month's bank statement reconciliation.

After covering FY 14 obligations the remaining cash position at the end of the fiscal year was approximately \$178.5 M. These monies were utilized in supporting the cash flow requirements of FY 15 expenditures. This change in calculation methodology is a change from operational receipts versus expenditures approach (annual profit and loss statement employed since 2002) to assets versus liabilities balance sheet approach. The Legislative Auditor completed its official audit of the new method and confirmed the \$178.5 M of cash resources was available. Therefore, these resources were indirectly utilized in the confecting of the FY 16 budget.

Supplementary Section (Preamble 18(D))

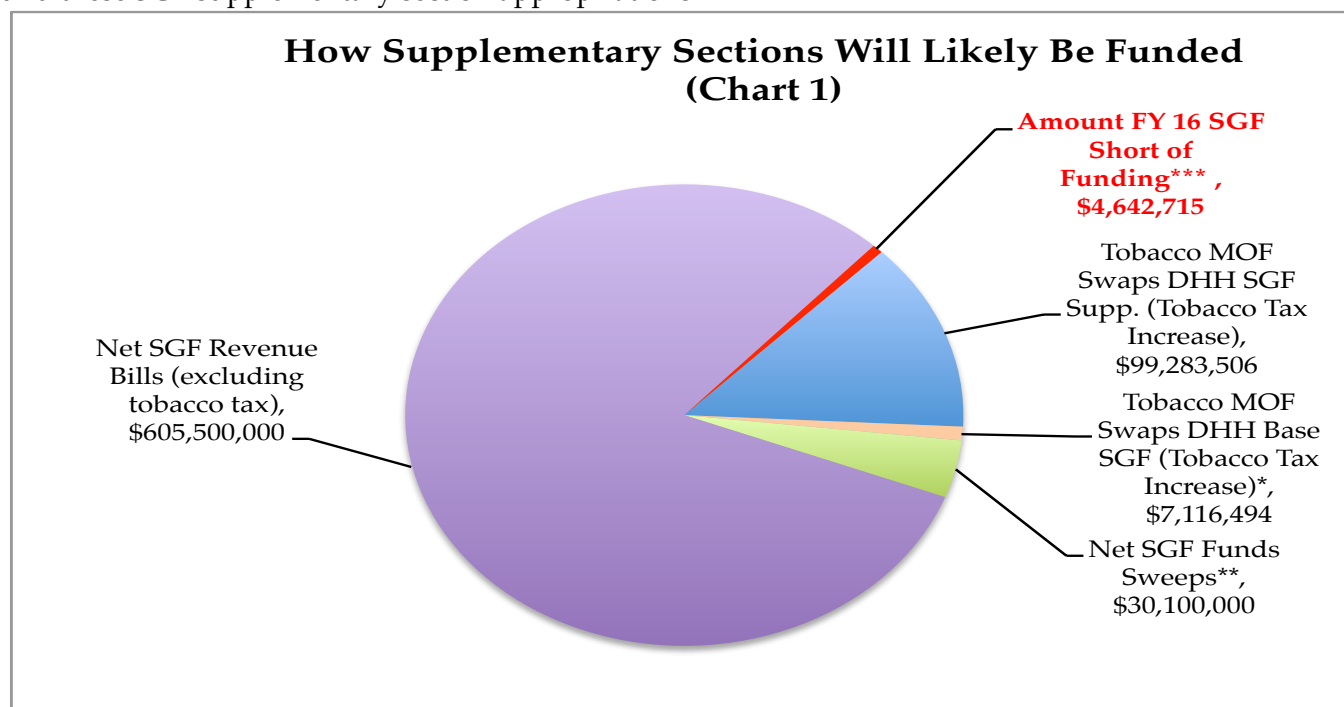
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Included within Act 16 (HB 1) is a Supplementary Section that appropriates various expenditures throughout state government in the event various revenue measures are enacted or the official SGF forecast for FY 16 is increased above the 5/14/2015 official forecast. Due to these legislative measures being enacted (see Revenue Overview 2015 Session) and even though Revenue Estimating Conference (REC) has not met as of this writing, the SGF appropriations are currently a part of the overall base SGF budget for FY 16. However, action by REC could change these appropriations as the current language contained within Preamble Section 18(D) provides for a pro-rata share funding allocation if the REC were to adopt revenues in some amount less than what is contained within the fiscal notes for these bills. **Note:** The supplementary section also includes federal appropriations, which is not included in the Table 4 below. Table 4 only includes SGF appropriations contained within this section of Act 16.

Table 4

DEPT	AGENCY	DESCRIPTION	SGF SUPP. SECTION	% of TOTAL
04-DOS	04-139	Registrar of Voter vacancies & related expenditures	\$997,000	0.13%
	04-139	Museum & Other Operations Program	\$1,700,000	0.23%
	04-139	Voter Outreach Services	\$355,585	0.05%
04-DOS TOTAL			\$3,052,585	0.41%
04-AGRI	04-160	Restores Cuts from Executive Budget	\$3,921,447	0.53%
04-AGRI TOTAL			\$3,921,447	0.53%
06-CRT	06-262	Library Services Program	\$300,000	0.04%
	06-263	Museum Program	\$100,000	0.01%
	06-264	State Parks	\$7,000,000	0.94%
	06-267	Marketing Program	\$400,000	0.05%
06-CRT TOTAL			\$7,800,000	1.05%
09-DHH	09-303	Families Helping Families Centers	\$170,000	0.02%
	09-306	Additional SGF that can be utilized for State Match	\$41,408,637	5.57%
	09-306	Payments to Private & Public Providers for LSU Physicians	\$7,004,981	0.94%
	09-306	Funding for UPL/FMP payments and UCC payments to partner hospitals	\$35,994,388	4.84%
	09-306	Funding for UPL/FMP payments to Children's Hospital & UCC payments for the New Orleans partner hospital	\$9,455,500	1.27%
	09-306	Payments to Private Providers Program	\$4,500,000	0.61%
	09-340	Early Steps	\$500,000	0.07%
	09-340	LA Assistive Technology Access Network (LATAN)	\$250,000	0.03%
09-DHH TOTAL			\$99,283,506	13.36%
19-HIED	19-671	Board of Regents	\$548,591,363	73.82%
	19-671	Pennington Biomedical Research Center	\$4,000,000	0.54%
	19-600	LSU Health Sciences Center in New Orleans	\$2,500,000	0.34%
	19-600	LSU Health Sciences Center in New Orleans for the LA Cancer Research Center	\$490,000	0.07%
	19-600	LSU Health Sciences Center in Shreveport	\$31,100,000	4.18%
	19-600	Legacy Costs of EA Conway & Huey P Long Medical	\$3,755,947	0.51%
	19-600	LSU Ag Center	\$2,000,000	0.27%
	19-615	SU System	\$4,500,000	0.61%
	19-620	Grambling University	\$2,000,000	0.27%
	19-649	Allocated to the lowest funded LCTCS institution	\$5,000,000	0.67%
19-HIED TOTAL			\$603,937,310	81.27%
19-SPECIAL	19-695	MFP - Supplemental Course Allocation	\$2,621,961	0.35%
	19-695	MFP - Teacher pay raise	\$16,202,485	2.18%
19-SPECIAL SCHOOLS TOTAL			\$18,824,446	2.53%
19-HCSD	19-610	Health Care Services Division for legacy costs	\$6,323,421	0.85%
19-610 TOTAL			\$6,323,421	0.85%
TOTAL SGF ONLY FY 16 SUPPLEMENTARY SECTION APPROPRIATION (PREAMBLE 18(D))			\$743,142,715	100.00%

Due to the appropriations listed in the table on the previous page being funded above the current adopted SGF base forecast, these items will likely be funded with the revenue measures enacted during the 2015 Legislative Session. Chart 1 below is an illustration of the various sources that will likely be utilized to fund these SGF supplementary section appropriations.



*Total SGF Supplementary Section appropriations contained within Act 16 (HB 1) for DHH equate to a total of \$99,283,506. Since the FY 16 estimated revenue that may be generated from the increased tobacco tax is \$106.4 M, these resources will be utilized to supplant base SGF in addition to funding all \$99.3 M of SGF appropriations contained within the SGF Supplementary Section.

**The \$30.1 M represents the net gain to the SGF from various statutory dedicated funds sweeps to the SGF (funds sweeps) contained in Act 121 (HB 566 – Funds Bill).

***As mentioned in the FY 16 SGF Post-Session Status article, the \$4.6 M represents the amount of the FY 16 SGF shortfall that has not yet been addressed.

Department of Public Safety Legislative Changes

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During the 2015 Legislative Session, multiple bills were enacted that affected the Department of Public Safety (DPS) and the Office of State Police (OSP). Fees related to the Office of Motor Vehicles (OMV) were increased and the state police pay raise was fully implemented. Below are the changes to DPS.

Fee Increases

Fees paid to OMV for certificates of title, salvage titles and driving records were increased. The previous fee for certificates of title and salvage titles was \$18.50. Act 110 (HB 445) of 2015 increased the fee by \$50 to \$68.50. Driving records were previously \$6 and Act 111 (HB 448) of 2015 increased the fee by \$10 to \$16. The new fee amounts will increase collections by approximately \$81.3 M annually.

Based on a three-year historical average (FY 12 – FY 14) taken from the OMV budget request, there are approximately 1,190,000 certificates of title granted and 2,180,000 official driving record requests annually. Certificates of title fees generated \$22 M (1.19 M titles x \$18.50 fee) annually. To the extent the number of titles issued remain static, the new fees would generate \$81.5 M (1.19 M titles x \$68.50 fee) annually, an increase of \$59.5 M, which would flow into the state general fund (SGF). Official driving record requests generated \$13.08 M (2.18 requests x \$6 fee) annually. To the extent the number of requests remain static, the new fee would generate \$34.88 M (2.18 M requests x \$16 fee) annually, an increase of \$21.8 M, which would be classified as self-generated revenue (SGR).

The \$59.5 M increase generated by Act 110 is new state general fund revenue that can be used throughout state government. The \$21.8 M increase generated by Act 111, classified as SGR, will be used by OSP to swap for Transportation Trust Fund (\$20 M) and Riverboat Gaming Enforcement Fund (\$1.8 M).

State Trooper Pay Raise

Act 16 (HB 1) of 2015 includes language that provides for \$11 M to be paid out of the Debt Recovery Fund to fund additional pay raises for state troopers. Act 414 (HB 638) of 2015 provides that the Office of Motor Vehicles declare some outstanding OMV debts as “final delinquent debt” and turning such debt over to the Office of Debt Recovery (ODR). Debt collected by ODR will be deposited into the Debt Recovery Fund. Based upon LFO estimates using historical data provided by OMV, the ODR may potentially collect between \$13 M and \$19 M based upon the debts owed to OMV and the collection percentages associated with certain debt, of which \$11 M is currently appropriated in Act 16.

A BA-7 was approved at the January 2015 meeting of the Joint Legislative Committee on the Budget (JLCB) for \$10.1 M to fund the state trooper pay raise. The amount approved by JLCB equated to a 20% pay raise as opposed to the 30% pay raise that was initially requested. The annualization of this pay raise totals \$24 M (\$14 M salaries + \$10 M related benefits) and is included in Act 16 of 2015. The pay raise approved by JLCB is funded in FY 16 with the Insurance Verification Fund created by Act 641 of 2014. The \$11 M appropriation in Act 16 provides enough funding to implement the full 30% pay raise.

Insurance Verification System Fund

Beginning in FY 16, the Insurance Verification System Fund may also be utilized by district attorneys, Department of Corrections (DOC), and for other law enforcement purposes if funding is available.

Act 641 of 2014 increased the fees for motorists that operate a vehicle without automotive liability insurance. Based on REC projections (5/15/2015), the Insurance Verification System Fund may collect \$36.9 M in FY 16. After DPS expenses of \$25 M (\$24 M state trooper pay raise + \$1 M real-time database), there would be \$11.9 M remaining in the fund. Current law states that \$7 M would be used by the DOC and \$1 M would be used to fund assistant district attorneys. After these expenses, \$3.9 M would remain in the fund. However, the current fund projection could be overstated based upon the revenue interactions discussed below.

Fund Interaction

Based upon Act 414 of 2015, the amount collected by the Insurance Verification Fund may be impacted once fees owed to OMV are considered final debt. As provided in Act 414, final debt is the amount due which is no longer negotiable and that the debtor has no further right of administrative and judicial review. Prior to Act 414, any fees that would have been paid to OMV after 60 days would have been classified as self-generated revenue (original fee) and statutory dedicated revenue (Act 641 of 2014 increased the original fee and the increase is deposited into the Insurance Verification System Fund). The majority of debt that would be collected by ODR is insurance cancellation fees and notice of violations. These are the same penalties that fund OMV general operations and the Insurance Verification System Fund. Since the Debt Recovery Fund and the Insurance Verification System Fund collect the same fees, the potential exists for one fund (Insurance Verification System Fund) to not collect as much revenue as previously collected as a result of this legislation.

Previously, any debts owed to OMV were collected by OMV and deposited into the fund. However, as a result of Act 414 of 2014, any debt older than 60 days that is owed to OMV will be collected by ODR and deposited into the Debt Recovery Fund upon collection of which \$11 M of such collections are currently appropriated for state trooper pay raises in Act 16. Therefore, through ODR, Act 414 essentially dedicates a portion of debt older than 60 days to OSP that may have otherwise flowed into either OMV SGR or the Insurance Verification System Fund. To the extent the Insurance Verification System Fund does not collect the projected amount (\$36.9 M) as a result of Act 414, funding for DOC and district attorneys may not be available. In the event collections are drastically reduced, funding for the state police pay raises approved in January 2015 may not be available as well.

Additional analysis on the full impact of Act 414 across state government will be provided in the next edition of *Focus on the Fisc*.

EDUCATION

K-12 Education: Minimum Foundation Program (MFP)

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The Minimum Foundation Program (MFP) is the major source of state funding to local schools. FY 16 funding includes combined adjustments of \$84.7 M in both base funding and supplementary budget recommendations. The budget includes \$34.4 M for enrollment adjustments for an estimated 4,748 students increase, \$6 M to align the formula with the current year baseline and \$44.2 M for recommendations of the MFP Task Force. Total FY 16 funding is \$3.678 B (\$3.391 B SGF, \$177.4 M Lottery Proceeds Fund and \$109.7 SELF Fund).

Citing budgetary concerns, the Senate Education Committee deferred the BESE recommended funding formula (HCR 18). As such, Act 16 (HB 1) base funding does not include the \$36.2 M for the recommended per pupil increase (\$1.375%). Instead, this funding is included in the supplementary funding section; \$20 M will be allocated from the Lottery Proceeds Fund using unclaimed prize monies. (These funds historically have been reinvested by the Lottery Corporation into lottery prizes and will be available after 1/1/2016). Additionally, \$16.2 M is contingent on revenues generated from various instruments approved by the legislature or any additional revenues recognized by REC. This \$36.2 M shall be allocated in the same manner as provided in the FY 15 MFP Formula, for a certificated classroom teacher pay raise, related employer retirement contributions and other expenditures in order to sustain the certificated teacher pay raise provided for by appropriation in FY 14.

In addition to the \$36.2 M for the per pupil amount increase, the FY 16 MFP includes \$14 M for the following adjustments based on recommendations of the MFP Task Force.

- 1) *Career Development Allocation*: **\$6 M increase in the base budget** to support the development of technical courses required for statewide credentials in city and parish school systems and other public schools in the amount of 6% of the base per pupil cost for each qualifying student course enrollment; a minimum amount of \$25,000 will be provided for each city and parish school system; and a minimum of \$10,000 will be provided for other public schools with students enrolled in grades 9 through 12 (\$10 M total funding).
- 2) *High Cost Services Allocation*: **\$5.4 M increase in the base budget** for the funding pool available to public school systems and schools which substantiate that the prior year cost of services for students with disabilities exceeds three times the most recent state average total expenditure per pupil amount; allocation amounts are limited by the amount budgeted for this initiative and are to be distributed equitably to school systems and other public schools proportional to the total of qualifying applications submitted. Further reflects a change in the distribution methodology from a 4-tier system with varying reimbursement rates to a rate that is the same percent for each school (\$9.4 M total funding).
- 3) *Supplemental Course Allocation*: **\$2.6 M increase in the supplementary funding section** to provide for the cost of secondary course choices specifically approved by BESE. For each school system and other public schools funded through the formula, the allocation shall equal \$35 for each student enrolled in grades 7-12 as of February 1st. (\$10.1 M total funding).

Higher Education Overview

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Budget adjustments based on anticipated revenues from various instruments approved by the House and Senate bring FY 16 total state funding for higher education to \$930.5 M, (\$381.9 M SGF in the base budget, and \$548.6 M in the supplementary budget section.) The supplementary section also includes a \$350 M MOF swap replacing SGF with funding from the Higher Education Initiatives Fund. Deposits into the fund, not to exceed \$350 M, will be made pursuant to Act 40 (SB 93) of 2015, which establishes the Student Assessment for a Valuable Education (SAVE) credit program. The Board of Regents (BOR) shall distribute funds pursuant to the formula for the equitable distribution of such funds to the institutions.

The SAVE program provides a tax credit against income, sales and use, gasoline and special fuel taxes for each student enrolling at a public institution of higher education. The amount of each credit must not exceed the average household tax liability in LA for the total of such taxes as determined and published by the Department of Revenue (DOR). The aggregate amount of credits cannot exceed \$350 M. Credits must be transferred to the BOR and used solely for each student enrolled in a public institution of higher education on and after 7/1/2015. Not later than June 30th the BOR must certify to the department the total headcount enrollment at public institutions of higher education from the previous fall. The DOR then must determine the total amount of the credit and must transfer that amount to the treasurer from the current collections of taxes. Upon receipt of the funds, the treasurer is authorized and directed to transfer or deposit the funds into the Higher Education Initiatives Fund. The secretary of the DOR and the treasurer must report such action to the commissioner of administration and the Joint Legislative Committee on the Budget. (The SAVE credit program sunsets on 6/30/2020.)

FY 16 appropriated funding levels represent a slight reduction in formula funding for the institutions and an increase of \$31.8 M (SGF) for the Office of Student Financial Assistance (OSFA) for the Taylor Opportunity Program for Students (TOPS) and Scholarships/Grant Program.

Act 16 (HB 1) also contains \$104.8 M (SGF) for institution specific initiatives: \$43.2 M is contained in the base budget for LSU Health Sciences Center Shreveport (\$16.1 M) and LSU Health Care Services Division (\$27.1 M) for legacy costs resulting from the transfer of former public hospital facilities to the public/private partnerships; the \$10 M balance to fully fund these expenses is provided in the supplementary funding section.

The balance of \$61.6 M is contained in the supplementary funding section and provides for the following:

- Southern University System (\$4.5 M), Grambling State University (\$2 M), and the LA Community & Technical College System (\$5 M); these funds were eliminated in the Executive Budget.
- Pennington Biomedical Research Center (\$4 M) partially replaces one-time funds including \$1.5 M WISE funding and \$3 M for items that were off-budget.
- LSU Health Sciences Center Shreveport (\$31.1 M) to maintain operational capacity and avoid risk of loss of accreditation due to inadequate funding.
- LSU Health Sciences Center New Orleans (\$3 M) for research programs.
- LSU Ag Center (\$2 M) to help offset rising mandated costs in employee/retiree health insurance and employee retirement contributions.
- LSU Health Sciences Center Shreveport (\$3.7 M) and LSU Health Care Services Division (\$6.3 M) for the balance of legacy costs.

For FY 16 the prior year transfer amount of \$12.15 M from the Community Development Block Grant (CDBG) Program was increased to \$24.3 M and will serve as the sole source of funding for the WISE (Workforce & Innovation for a Strong Economy) initiative in the operating budget; there are no additional funds appropriated in capital outlay. CDBG funds can only be used in 53 of the 64 parishes which were impacted by hurricanes Gustav and Ike, as such there are 9 institutions with a combined 13 campuses located in Bossier, Caddo, Desoto Lincoln, Natchitoches and Webster which will not eligible to participate in the WISE initiative.

HEALTH & HOSPITALS

FY 16 Medicaid

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For FY 16, Medical Vendor Payments (Medicaid) is allocated \$8.38 B. This represents an overall increase of \$270.7 M, or 3.3%, from the FY 15 Existing Operating Budget freeze date (12/1/2014). Total funding includes both base funding and supplementary budget recommendations. Supplementary budget recommendations reflected in Schedule 09-306 (Medicaid) in Act 16 (HB 1) total approximately \$101.8 M in SGF and Statutory Dedication revenues used as state match, which will be used to draw \$155.6 M in federal matching funds for total Medicaid payments of \$257.5 M.

Major Changes from FY 15

The net increase from the FY 15 allocation at 12/1/2014 results from the following significant enhancements and reductions.

Significant Reductions:

- \$89.6 M - Government Efficiency Management Support Savings (GEMS)
- \$11.6 M - Annualization of FY 15 mid year reductions
 - \$6.5 M - Eliminate Louisiana Health Insurance Premium Program
- \$60.1 M - Legacy cost reduction paid through DHH
- \$12.4 M - Various hospital payment reductions (including elimination of hospital outlier payments)

Significant Enhancements:

- \$167 M - Funding projected growth for the Public Private Partnerships
 - \$32 M - 100% Federal Funds from public hospital cost reports for legacy cost
- \$26.9 M - 100% Federal Funds for UPL payments to rural hospitals
- \$9.3 M - Funding for Home and Community Based waivers
- \$2.0 M - Funding for Dental Managed Care plan payments and Medicare Buy-in payments

Note: An additional \$177 M in total funding was added to the Medicaid budget for LSU Physician UPL payments. The source of match (\$67.3 M IAT) is Intergovernmental Transfer (IGT) revenue transferred from the LSU medical schools. DHH has indicated the level of federal match funding (\$110.6 M) associated with the \$177 M appropriation will likely not be drawn in FY 16. Information provided by DHH indicates approximately \$30 M in supplemental UPL payments are anticipated to be paid for the LSU Physician UPL programs in FY 16.

FY 16 Standstill funding:

The FY 16 Medicaid budget contains standstill funding for various programs. Based on increased spending projections reflected in the Medicaid budget request for FY 16, standstill budget funding for certain programs may result in a budget shortfall in FY 16. In addition, the FY 16 Medicaid budget includes \$89 M in government efficiency management savings (GEMS). A specific plan on how these savings will materialize in FY 16 has been requested but has not been provided to the LFO. To the extent such savings do not materialize as a result of missing targeted savings or lack of implementation, the GEMS initiatives may put additional pressure on the FY 16 Medicaid budget. DHH has projected significant growth in the following programs.

- \$237.1 M - Bayou Health
- \$59.8 M - Annualize various Home and Community Based waiver slots
- \$15.7 M - Clawback (Medicare Part D Prescription Drug funding for Dual Eligibles)
- \$13.2 M - Medicare Premiums Part A & B
- \$9.1 M - Long Term Personal Care Services

Medicaid Outlook

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The FY 16 Medicaid budget contains approximately \$166,556,548 M in replacement revenues used as a state match source.

FY 17 Replacement Revenues

The FY 16 Medicaid budget contains approximately **\$166.6 M** in funding from 2 separate sources that will likely have to be partially or entirely replaced with SGF or alternate revenue sources in FY 17. These sources of revenue include Amnesty tax collections projected to be collected in FY 16, and Overcollections Fund revenues. These fund sources are appropriated in the Payments to Private Providers and the Uncompensated Care Costs (UCC) programs, and collectively will draw \$273.8 M in federal match for a total of \$440.4 M in claims payments.

Amnesty Revenues: FY 16 budget reflects \$52 M in amnesty revenues appropriated in the Medical Vendor Payments, Payments to Private Providers Program for FY 16. Any revenues generated through a tax amnesty program are deposited into the 2013 Amnesty Collections Fund. Act 421 established the 2013 Amnesty Collections Fund through the LA Tax Delinquency Amnesty Act of 2013. All \$52 M of these revenues will be used as a state match source to draw federal financial participation for claims payments to private providers. Based on the FY 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for LA Medicaid, \$52 M in amnesty revenues will generate approximately \$85.5 M in federal matching funds for a total of \$137.5 M in Medicaid claims payments. To the extent amnesty tax revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments to providers will be reduced by a proportionate amount (inclusive of federal match).

Overcollections Fund Revenues: FY 16 budget contains \$114.6 M in Overcollections Fund revenues appropriated in Medicaid (Payments to Private Providers and UCC programs). The original source of these funds are anticipated FY 15 collections from various funds that may be carried forward into FY 16 for expenditure. All \$114.6 M of the Overcollections Fund revenues appropriated in Medicaid for FY 16 will be used as a state match source to draw down federal financial participation for claims payments and UCC payments to providers. Based on the FY 16 blended Federal Medical Assistance Percentage (FMAP) of 62.17% (37.83% state match) for Medicaid claims and 62.21% (37.79% state match) for UCC, \$114.6 M in Overcollections Fund revenues will generate approximately \$188.3 M in federal matching funds for a total of \$302.9 M in Medicaid claims and UCC payments. To the extent Overcollections Fund revenues are not realized up to the level of appropriation in Medicaid for FY 16, claims payments and UCC cost payments to providers will be reduced by a proportionate amount (inclusive of federal match). The sources of revenue are reflected below:

FY 16 Revenue Source (used as a state match source)	Amount
State Tax Amnesty Program Revenues	\$52,000,000
Overcollections Fund Revenues	<u>\$114,556,548</u>
FY 15 Non-SGF Match Sources Used as Match	\$166,556,548

Stabilization Fund through FY 17, unless certain conditions are met. This prohibition expires at the start of FY 18, and Act 257 will then direct the expected excess revenues above to the state general fund rather than the Budget Stabilization Fund.

Act 473 (SB 202) and Act 465 (SB 259) are a proposed constitutional amendment and statutory companion that make substantial changes to the Budget Stabilization Fund, should the voters adopt the amendment at the October 24, 2015 election. The existing Budget Stabilization Fund would become the Budget and Transportation Trust, composed of two subfunds, the Budget Stabilization Subfund and the Transportation Stabilization Subfund. Excess mineral revenue would first flow into the Budget Subfund until its balance is \$500 million. In the following fiscal year, excess revenue would flow into the Transportation Subfund up to a \$500 million balance. The balance of each subfund is to be maintained at \$500 million, but excess revenue beyond the amounts necessary to achieve these balances would flow into the state general fund. No deposits to either subfund are allowed in any fiscal year in which money from the subfunds are appropriated or incorporated into the official forecast, unless specifically appropriated into the subfunds. This provision attempts to avoid a problem with the current Budget Stabilization Fund where falling non-mineral revenue is allowing use of the Fund to support the budget, while at the same time excess mineral revenue exists and is being diverted into the Fund and away from supporting the budget.

This new structure allows for excess mineral revenue to be utilized for transportation infrastructure by effectively capping the Budget Stabilization Fund at \$500 million in its new subfund rather than the higher maximums annually calculated (currently \$811 million for FY 15). This new maximum level is likely to be achieved by the close out of FY 15 or FY 16, making any excess available to the Transportation Subfund in the following fiscal year. However, there is no expected excess mineral revenue for FY 16 and FY 17. Under the current official forecast of May 2015, the earliest any excess mineral revenue will be available for the Transportation Subfund is FY 18 in an estimated amount of \$4.4 million, followed by \$7.2 million and \$9.3 million in FY 19 and FY 20, respectively. Mineral revenue forecasts are, of course, subject to change and actual results will likely differ from those currently expected.

Any deposits to the Transportation Subfund are to be used for planning, design, construction, and maintenance connected with the state highway program, with at least 20% to be used for the Intermodal Connector Program. That program was established to improve access to intermodal terminals such as airports, ports, and rail facilities. In addition, should the constitutional amendment proposed by Act 473 not be adopted by the voters, these monies would be directed to the Transportation Trust Fund pursuant to Act 275 of the 2015 session.

Finally, Act 473 retained much of the current law involving the Budget Stabilization Fund. No changes were proposed as to the necessity for declining revenue forecasts to make funds available for support of the budget, nor the 2/3 legislative vote required to authorize their use. Also not changed was the annual maximum fund balance calculation; each fiscal year's maximum balance is 4% of the prior year's total revenue receipts net of any federal disaster relief assistance. This limit appears contradictory, though, since the new language in Act 473 caps the Budget Stabilization Subfund at \$500 million, which is lower than what the current provision would calculate. The proposal does change the frequency of allowable revisions to the base threshold to every five years from the current frequency of ten years.

GENERAL GOVERNMENT

OMV Delinquent Debts and Allocations/Appropriations of Such in FY 16

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As was mentioned in the last edition of *Focus on the Fisc*, this edition includes additional information on Act 414 of 2015 (HB 638) and the flow of such debt collections provided within various Acts of the legislature. Act 414 of 2015 declares some outstanding OMV debts as "final delinquent debt" (60+ plus days old or older) and turns this debt over to the Office of Debt Recovery (ODR). As provided in Act 414, final debt is the amount due which is no longer negotiable and that the debtor has no further right of administrative and judicial review. Currently, the majority of these fee collections are classified as either OMV SGR or, pursuant to Act 641 of 2014, is classified as Insurance Verification System Fund revenues (only the increased portion from Act 641 of 2014). The originating source of every \$1 OMV collects from

the fee sources identified in Act 414 as delinquent is from current year debt, debt that is less than 60 days old and debt that is 60+ days old. Therefore, turning these 60+ day old debts over to the ODR could result in some amount less of SGR/Insurance Verification System Fund revenues flowing to the OMV (SGR) or to the statutory dedication (Insurance Verification System Fund). This issue was discussed in the last edition of *Focus on the Fisc*.

The specific amount that would be redirected is unknown at this time. However, pursuant to R.S. 47:1676(E)(1), non-tax debt monies collected by ODR are to be transferred to the Debt Recovery Fund and are to be used by the referring agency, in this case OMV, as if those revenues had been collected timely. Thus, the potential revenue reduction in SGR/Insurance Verification System Fund could be offset by the amounts collected on behalf of OMV deposited into the Debt Recovery Fund. However, based upon Act 414, before the OMV receives these delinquent resources, there are various non-OMV allocations and appropriations contained in Act 16 (HB 1), Act 26 (HB 2), Act 121 (HB 566) and Act 414 (HB 638). Therefore, Act 414 is essentially a dedication of 60+ day old OMV debts to State Police and DOTD that would have otherwise flowed into either OMV SGR or the Insurance Verification Fund. Based upon assumptions outlined within the fiscal note for Act 414 (HB 638) and the information provided to the LFO by the OMV and by the Department of Revenue, the LFO estimates ODR could collect between \$13 M to \$19 M in FY 16 from these outstanding debts.

The Flow of OMV Delinquent Debts

The LFO is unclear as to how these resources would be allocated. Below are the provisions contained in each Act and two potential funding interpretations of these various Acts as noted in Table 1 below.

- Act 16 (HB 1) – \$5 M appropriated from the Debt Recovery Fund to State Police (Training Academy);
- Act 16 (HB 1) – \$11 M appropriated from the Debt Recovery Fund (from Act 414) to State Police (Trooper Pay Raise);
- Act 26 (HB 2) – \$17 M appropriated from the Debt Recovery Fund (from Act 414) to DOTD;
- Act 121 (HB 566) – Provides that \$11 M generated from Act 414 shall be allocated to State Police for State Trooper pay raise, which has occurred in Act 16 (HB 1);
- Act 121 (HB 566) – Provides that \$42 M generated from Act 414 shall be allocated to DOTD of which it appears Act 26 (HB 2) has appropriated \$17 M of this \$42 M allocation;
- Act 414 (HB 638) – Provides that \$25 M be allocated to State Police, which State Police is interpreting to mean in addition to the \$11 M currently appropriated.

Potential Interpretation 1: To the extent Act 414 of 2015 is interpreted so that the mandatory allocations contained in Act 121 (HB 566) and Act 414 (HB 638) are separate and apart from the current appropriations, the total amount accounted for is \$100 M (\$41 M – State Police, \$59 M – DOTD).

Potential Interpretation 2: To the extent Act 414 of 2015 is interpreted so that the mandatory allocations contained in Act 121 (HB 566) and Act 414 (HB 638) are not separate and apart from the current appropriations, the total amount accounted for is \$67 M (\$25 M – State Police, \$42 M – DOTD).

Table 1						
	Act 16	Act 16	Act 26	Act 121	Act 414	Total
Potential Interpretation 1	\$5,000,000	\$11,000,000	\$17,000,000	\$42,000,000	\$25,000,000	\$100,000,000
Potential Interpretation 2	Included in Act 414 amount	Included in Act 414 amount	Included in Act 121 amount	\$42,000,000	\$25,000,000	\$67,000,000

To the extent the revenues collected are less than appropriated, State Treasury will allocate the collections based upon a prorata share. Based upon the current appropriations in Act 16, the percentage breakdown is 48% - State Police, 52% - DOTD.

Transportation Overview: 2015 Regular Session of the LA Legislature

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During the 2015 Regular Session, several instruments were passed that could potentially create additional revenues to be deposited into the Transportation Trust Fund-Regular (TTF) or to bring about a reallocation of TTF funds away from non-transportation related expenses (i.e. Office of State Police for traffic control purposes).

Act 147 - SB 271 – Senator White

Act 147 provides for equivalency of special fuels taxes with the gasoline tax for motor vehicles that operate on state highways using liquefied natural gas, liquefied petroleum gas or compressed natural gas. The proposed law will likely result in an indeterminable increase in special fuels tax collections to be deposited into the TTF, shifting the collection of taxes from a decal to a per gallon equivalent. These vehicles currently pay either a flat-fee or mileage based, statutorily defined tax for special decals on an annual basis depending on the type and weight of the vehicle. As the current system largely relies on self-reporting, it is likely to result in less tax revenue collections than would occur under a system that collects taxes based on the actual volumes consumed.

Act 147 additionally reduces the discount for timely filing and remittance of motor fuels tax that is currently allowed to suppliers and distributors/importers of gasoline, diesel and special fuels. Act 147 reduces the allowable administrative discount for suppliers or permissive suppliers from 1.5% to 0.5% and reduces the allowable discount for fuel delivered to a purchaser with a valid distributor or importer license from 1% to 0.33%. The LA Department of Revenue estimates these proposed discount reductions will result in a fuels tax revenue increase of approximately \$6 M to the TTF beginning in FY 16.

Act 275 - SB 221 – Senator Adley (and associated Acts 257, 465 and 473)

Act 275 provides for an allocation of the annual avails of certain sales and use taxes in an amount equal to the general fund revenues certified by the Revenue Estimating Conference as being attributable to the provisions in Act 257 (SB 122) of 2015 up to \$100 M while requiring the first \$70 M of the total avails to be deposited into the TTF for state highway pavement and bridge sustainability projects in accordance with DOTD definitions of such projects. Ninety-three percent (93%) of the avails remaining after the first \$70 M carve-out are to be sub-allocated as follows: 30% into the highway priority program for capacity projects, 25% for port construction and development priority program projects, and 45% for state highway pavement and bridge sustainability projects in accordance with DOTD definitions of such projects. The final 7% of the remaining avails after the first \$70 M carve-out shall be deposited into the LA State Transportation Infrastructure Fund as per Act 431 (HB 767) of 2015. Act 275 is projected to generate additional deposits into the TTF of \$4.4 M in FY 18, \$7.2 M in FY 19 and \$9.3 M in FY 20 based on the current estimates adopted by the Revenue Estimating Conference on 5/14/15.

Act 275 repeals both the SGF trigger associated with Act 11 of the 2008 2nd Extraordinary Session and the phase-in of depositing certain vehicle sales taxes into the TTF in lieu of up to \$100 M in deposits as per new law. This repeal addresses a potential \$400 M redirect of funds from the SGF into the TTF that was estimated to occur in five to seven years (pending SGF revenue deposits reaching a designated trigger of \$9.7 B).

NOTE: Act 473 (SB 202) proposes a constitutional amendment creating the Budget and Transportation Stabilization Trust. Voter approval of the constitutional amendment this fall may result in the funds discussed above being deposited instead into the Budget Stabilization Subfund until its balance reaches \$500 M and then into the Transportation Stabilization Subfund until it reaches a balance of \$500 M. Funds from the Transportation Stabilization Subfund shall be appropriated by the legislature and used solely and exclusively for planning, design, construction and maintenance connected with the state highway program, provided that not less than twenty percent of these funds shall be used solely and exclusively for the Louisiana Intermodal Connector Program within DOTD.

Act 380 - HB 208 – Representative Landry

Act 380 places into statute additional provisions regarding the 20% constitutionally allowable distribution of TTF dollars collectively for ports, the Parish Transportation Fund, the Statewide Flood Control Program and the Office of State Police (OSP) for traffic control purposes, specifically that such funds shall be limited to 20% of all monies deposited into the TTF, including but not limited to state generated tax monies, fees, penalties and interest earnings. Historically, the only funds considered against the 20% cap were those generated specifically by state tax generated revenues. Act 380 additionally restricts the appropriation of TTF to OSP by stipulating the maximum amounts that can be appropriated to OSP by the legislature to \$45 M in FY 16, \$20 M in FY 17 and \$10 M in FY 18. The proposed law will make additional TTF monies available for appropriation to either the DOTD operating or Capital Outlay budgets in amounts of approximately \$20.1 M in FY 16, \$25.1 M for FY 17 and \$55.1 M in FY 18 and beyond. A language amendment included in the general appropriation bill supplanted \$20 M of TTF funds within OSP with self-generated revenues incorporated into the official forecast for FY 16 due to the enactment of Act 111

(HB 448) in FY 16.

Act 431 - HB 767 – Representative St. Germain

Act 431 creates, but does not fund, a state infrastructure bank to act as a revolving loan program within the State Treasury to provide assistance to governmental entities to finance road, bridge and transportation projects with DOTD and State Bond Commission approval. A board will oversee the program and have authority to issue bonds, choose projects for funding and offer loans with a request for exclusion from the state debt limit with the debt service subject to appropriation. Act 432 creates La State Transportation Infrastructure Fund and provides for certain capitalization mechanisms through government funds, donations for public transportation projects and potential revenue deposits as per Act 275 of 2015.

BP Oil Spill Settlement

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On July 2, 2015, a settlement agreement in principle in the amount of \$18.7 B was reached between British Petroleum (BP), the federal government and gulf coast states of Alabama, Florida, Louisiana, Mississippi and Texas. The settlement amount is made up of Natural Resource Damages claims (\$7.3 B), Clean Water Act penalties (\$5.5 B), state economic damage claims (\$4.9 B) and local government claims (\$1 B). Of the \$18.7 B settlement, the state of Louisiana is expected to receive \$6.8 B. As part of the settlement, the state will receive a portion of the settlement upfront and receive annual payments for the next 18 years. The exact annual payment amounts are unknown at this time. The annual payment amounts detailed below are based on a weighted percentage of the amount each state is to receive from BP and that percentage was used to determine the illustrative amounts below.

Natural Resource Damages (NRD) – Louisiana \$5.0 B

The total NRD portion of the settlement is \$7.3 B, with Louisiana receiving the majority of the settlement with \$5.0 B. The other four gulf states' settlements total \$1.51 B (Texas - \$238 M, Alabama - \$296 M, Mississippi - \$296 M and Florida \$680 M). The remainder of the settlement will be spent on region-wide projects (\$350 M), open ocean projects (\$240 M) and \$232 M available at the end of the payment period to cover any further damages that are unknown at this time. Louisiana has already received \$368 M of the \$5 B for early restoration projects as part of an initial \$1 B early restoration payment by BP. The remaining \$4.632 B will be paid to Louisiana over 15 years, beginning 1 year after the consent decree is approved according the BP news release. Louisiana will not receive the funds directly; instead the funds will be paid to Louisiana through reimbursement for approved restoration projects.

Clean Water Act Penalties (CWA) – Louisiana \$787 M

BP will pay \$5.5 B in CWA penalties with a portion of the penalties paid to gulf states pursuant to the RESTORE Act*. The gulf states are expected to receive \$2.97 B of the settlement and will be distributed as follows: Louisiana - \$787 M, Alabama - \$599 M, Mississippi - \$582 M, Florida - \$572 M and Texas - \$438 M. The \$787 M that Louisiana will receive will be paid over 15 years. To the extent CWA penalties are paid pursuant to RESTORE, Louisiana will expend money on projects, then seek reimbursement from the RESTORE Council to receive its portion of the CWA penalties.

Economic Damages Payments – Louisiana \$1.0 B

The five Gulf States will receive \$4.9 B (Florida - \$2 B, Alabama - \$1 B, Louisiana - \$1 B, Mississippi - \$750 M and Texas - \$150 M) for economic claims over an 18 year period. BP will make an initial payment of \$1 B once the consent decree is approved and will make \$260 M in annual payments to the states in year 3, continuing until year 17 after the consent decree is approved.

Based on a weighted average of state settlements, Louisiana would receive approximately \$204 M upon consent decree approval, no payments in years 1 and 2, and annual payments of \$53.1 M for 15 years in years 3 through 17.

As a result of Act 646 of 2014, the monies from economic damages settlements are to be deposited into the Economic Damages Collection Fund and distributed within 30 days as follows: 45% to the Budget Stabilization Fund (not to exceed statutory limit), 45% to the Medicaid Trust Fund for the Elderly (not to exceed \$700 M) and 10% to the Health Trust Fund (up to \$30 M). Table 2 on the next page illustrates the annual amounts that may be distributed from the Economic Damages Collection Fund to the other funds if

the first payment is received in FY 16.

The table to the right assumes that the limits placed on the three funds will not be reached and that the deposits into the Medicaid Trust Fund for the Elderly and Health Trust Fund will be expended each year.

To the extent the Budget Stabilization Fund does reach the statutory limit, it is possible that the funding for the Budget Stabilization Fund would remain in the Economic Damages Collection Fund to accrue interest. The interest accrued on the balance within the Economic Damages Collection Fund would be appropriated to the Board of Regents to be distributed to state public postsecondary institutions as a result of Act 396 of 2015. The exact amount that would be distributed is indeterminable and would depend on the amount that remains in the fund and the rate of return for that particular year.

NOTE: The illustrative amount listed above that is to be deposited into the Budget Stabilization Fund is subject to change should Act 473 (SB 202) of 2015 is approved by voters in the fall. Act 473 creates the Budget and Transportation Stabilization Trust, which creates a Budget Stabilization Subfund that would receive mineral revenues up to \$500 M. Once that \$500 M is met, a Transportation Stabilization Subfund would receive mineral revenues up to \$500 M. If approved by voters, Act 473 of 2015 would establish the limit for the Budget Stabilization Subfund at \$500 M, to which the current balance is already close. Upon reaching the \$500 M cap, the remainder of the 45% set aside for the Budget Stabilization Subfund may remain in the Economic Damages Collection Fund.

NOTE: The annual distribution amounts for each part of the settlement for Louisiana are for **illustrative purposes** and are likely to change once the consent decree is approved. The amounts are determined based on a weighted average of Louisiana's portion of the settlement and are for illustrative purposes only.

***RESTORE Act** - The RESTORE Act was passed by Congress in 2012. Transocean entered into a Federal Settlement Agreement with the U.S. DOJ in January 2013 and paid civil penalties of \$1 B. These penalties are to be distributed with 20% paid to the federal government and 80% (\$800 M) deposited in the Gulf Coast Restoration Trust Fund. From the fund, 35% (\$280 M) is allocated equally to the Gulf States. LA's share will be distributed with 70% paid directly to the state and 30% paid to coastal parishes through a weighted formula. An additional 30% (of the \$800 M) will be distributed to Gulf States using a weighted formula and no state will receive less than 5% of this portion. Finally, the state will receive an equal share with the other Gulf States of 2.5% for grants and research centers.

Table 2

Year	Budget Stabilization Fund	Medicaid Trust Fund for the Elderly	Health Trust Fund	Total
FY 16	\$91,836,735	\$91,836,735	\$20,408,163	\$204,081,633
FY 17	\$0	\$0	\$0	\$0
FY 18	\$0	\$0	\$0	\$0
FY 19	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 20	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 21	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 22	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 23	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 24	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 25	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 26	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 27	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 28	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 29	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 30	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 31	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 32	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
FY 33	\$23,877,551	\$23,877,551	\$5,306,122	\$53,061,224
Total	\$450,000,000	\$450,000,000	\$100,000,000	\$1,000,000,000

Department of Agriculture and Forestry Fee Increases Passed During the 2015 Legislative Session

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The legislature passed a number of measures during the 2015 session that provides the LA Department of Agriculture and Forestry (LDAF) budgetary relief in the form of allowing three of its commissions – the Structural Pest Control Commission, Horticulture Commission, and Seed Commission – to raise fees for exams and regulatory services. For the fee increases to take effect, each commission would have to approve and set a fee increase, then LDAF would promulgate the increases by administrative rule. As a result of the length of time necessary to promulgate administrative rules, LDAF anticipates these fee increases will have only a nominal effect in FY 16, with a majority of the increases being realized beginning in FY 17. All of these programs rely on a combination of SGF and self-generated revenues.

Structural Pest Control Commission

Act 201 of 2015 allows the Structural Pest Control Commission to raise the maximum fee for standard and wood destroying insect reports from \$8 per report to \$16 per report, a potential increase of \$8 per report. Previously the commission could charge between \$5 and \$8 per report. Act 201 also repeals the minimum report fee of \$5 previously outlined in statute. In FY 14, LDAF counted approximately 35,000 standard contract reports and 45,000 wood destroying insect reports, a total of 80,000 reports.

To the extent the same number of reports are filed and the fee is increased to the maximum of \$16, LDAF will generate \$1.28 M (\$16 x 80,000) in revenue. This would result in a potential increase of \$640,000 annually from the previous maximum of \$640,000 (\$8 x 80,000).

Horticulture Commission

Act 202 of 2015 authorizes the Horticulture Commission to raise fees for professional, nursery stock dealer, and cut flower dealer licenses. The original license fees, as well as the new maximum fee and fee increase are outlined in Table 3 below.

Table 3							
License Type	Previous Fee	New Max Fee	Fee Increase	Number Issued (FY 14)	Previous Fee Max Revenue	New Fee Max Revenue	Additional Revenue Generated
Professional	\$75	\$150	\$75	5,822	\$436,650	\$873,300	\$436,650
Nursery Stock Dealer	\$130	\$175	\$45	1,459	\$189,670	\$255,325	\$65,655
Cut Flower Dealer	\$70	\$140	\$70	1,047	\$73,290	\$146,580	\$73,290
Total					\$699,610	\$1,275,205	\$575,595

Using LDAF data from FY 14 on each type of license, a maximum potential increase of \$575,595 annually may occur to the extent LDAF issues licenses at the same rate.

Seed Commission

Lastly, Act 318 of 2015 allows the Seed Commission to raise license fees for seed dealers in the state of Louisiana from \$100 to up to \$200. Additionally, the act expands which entities must have a seed dealer license to do business within Louisiana's borders, including out-of-state dealers. In FY 14, LDAF issued 1,300 seed dealer licenses. To the extent the Seed Commission increases the license fee to its maximum amount of \$200, and renewals remain constant, LDAF would generate an additional \$130,000 in revenue, from \$130,000 to \$260,000.

However, the inclusion of out-of-state dealers makes the potential increase in revenues difficult to predict based upon historical data. The department previously did not require out-of-state dealers to obtain licenses to carry out business in Louisiana. LDAF is currently aware of approximately 200 out-of-state entities that would require a license to do business in Louisiana, but this number is not certain. As a result, the true potential increase of revenues as a result of seed dealer license fees is indeterminable.

Act 318 of 2015 also raises the regulatory fee per 100 lbs. of seeds at the first point of sale in Louisiana from \$0.20 to \$0.30, an increase of \$0.10 per 100 lbs. Dealers sold 177,288,500 lbs. of seed in Louisiana in FY 14. To the extent seed sales in FY 16 and in subsequent FYs remain constant, a potential increase of \$177,300 in revenue from \$354,600 to \$531,900 (\$531,900 - \$354,600) would occur.

These three acts are part of LDAF's effort to maintain self-sustaining programs. The projected increase in revenues resulting from all three acts will allow the Pest Control, Horticulture, and Seed Regulatory programs to hire and retain personnel necessary to carry out the respective duties of each program. While LDAF does not expect each commission to raise their respective fees to the maximums outlined in each piece of legislation, the acts do allow the Pest Control, Horticulture, and Seed Regulatory programs to become more reliant on self-generated revenues.

Department of Natural Resources Fee Increases

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In order to offset a \$4 M reduction in SGF due to statewide budget cuts in FY 16, the Office of Conservation within the Department of Natural Resources recommended an increase in current fees as well as the introduction of several new fees to the legislature which will generate \$5.5 M. These fees will be used to

make up the balance in lieu of SGF to pay for services currently provided by the Office of Conservation. The increases will also allow DNR to fulfill the obligation to the Office of Technology Services for IT services (\$500,000) as well as replenish the underfunding of Related Benefits for the Office of Conservation (\$1 M). Prior to the reduction, DNR offered several services to oil and gas companies free of charge, because those services were funded with SGF. According to DNR, the Office of Conservation would have to reduce at least 17 positions in areas ranging from permit issuance to regulation enforcement if the fees had not been increased.

Table 4

Fee Category	Previous Fee	New Fee	Number of Facilities/Acres	Total Previous Fee Collections	Total New Fee Collections	Total Collection Increases
Type A Commercial	\$6,496	\$15,742	9	\$58,464	\$141,678	\$83,214
Type B Commercial	\$3,248	\$7,873	22	\$72,248	\$173,206	\$100,958
Class I	\$11,940	\$29,850	34	\$405,960	\$1,014,900	\$608,940
Class II, III, and Storage	\$651	\$1,621	1197	\$779,247	\$1,940,337	\$1,161,090
Acreage Fee	\$5 per acre	\$15 per acre	40,000	\$200,000	\$600,000	\$400,000
Total				\$1,515,919	\$3,870,121	\$2,354,202

Act 362 of 2015 is anticipated to raise approximately \$5.5 M annually in new revenue for the Oil & Gas Regulatory Fund by increasing existing caps and fees as well as creating new fees. First, Act 362 increases the Oil and Gas Regulatory Fund cap on all capable oil and gas production by 50% from \$2.45 M to \$3.675 M (\$1.2 M). In addition, Act 362 increases fee caps on Type A & B Commercial facilities, Class I, II, & III injection wells, and storage facilities by 150%. This is anticipated to generate another \$2.3 M in revenue annually. The fee increases will come from the following categories as noted in Table 4 above.

Lastly, Act 362 institutes 31 new fees to continue funding services DNR has traditionally offered at no cost to the industry. These new fees will generate approximately \$2 M per year in new revenue. Each fee and the revenue it is anticipated to generate are listed in Table 5 to the right.

Table 5

Application Type	Proposed Fee	Number of Applications	Projected Revenue
Alternate Well Unit	\$504	5	\$2,520
Exception to 29-E	\$504	10	\$5,040
Exception to 29-B	\$504	25	\$12,600
Severance Tax Relief	\$504	250	\$126,000
Downhole Combinations	\$504	12	\$6,048
Well Product Reclassification	\$504	5	\$2,520
Selective Completion	\$504	5	\$2,520
Pilot Projects	\$504	2	\$1,008
Work Permit-Minerals	\$75	4250	\$318,750
Amend Permit to Drill-Minerals (LUW, Stripper, Incapable, Other)	\$50	4500	\$225,000
Operator Registration	\$105	1340	\$140,700
Waiver of Production Test	\$504	20	\$10,080
Critical Date Order	\$504	40	\$20,160
Compliance Review Fee - Class III Solution Mining Cavern	\$2,000	71	\$142,000
Compliance Review Fee- Class II Hydrocarbon Storage	\$2,000	152	\$304,000
Class II CO2 EOR Project	\$5,000	2	\$10,000
Community Saltwater Disposal System Initial Notification	\$125	10	\$1,250
Work Permit- Injection or other	\$125	406	\$50,750
Plug & Abandon (NORM disposal)	\$500	1	\$500
Modify Well Permit- change MASIP, work prognosis, ect	\$300	100	\$30,000
Class V Permit Waiver/Exception	\$250	10	\$2,500
Witnessed Verification of MIT Tests	\$250	1521	\$380,250
Transfer Stations Regulatory Fee (E&P Waste)	\$2,500	16	\$40,000
Transport E&P Waste to Commercial Facilities	\$150	550	\$82,500
Authorization for After Hours Disposal (E&P Waste)	\$150	325	\$48,750
E&P Waste Determination	\$300	3	\$900
Commercial Facility Transfer Station Application	\$1,500	1	\$1,500
Commercial Facility Application Exclusive of an Associated Well	\$3,000	1	\$3,000
Commercial Facility Annual Closure Plan and Cost Estimate Review	\$300	42	\$12,600
Commercial Facility Reuse Material Applications	\$300	50	\$15,000
Reuse Material Applications not Associated w/ Commercial Facility	\$400	1	\$400
Total New Revenue			\$1,998,846

SGF at the end of the fiscal year. When a seed is not repaid with SGR, the SGF is diminished because the borrowable funds must always be repaid (R.S. 49:308.4). If there is no excess SGF available at the end of the fiscal year to fully repay the borrowable funds, a SGF deficit will result, which will have to be eliminated before the end of the following fiscal year. Presumably, as long as SGF from the new year is available to cover the prior year SGF deficit, borrowable reserves will remain intact, regardless of the cash balance of the SGF at the end of the year.

For many years the SGF operated with about \$300 M in reserves to accommodate situations in which SGF might run short of repayment capabilities. The reserve allowed SGF payments to continue unabated as the fiscal year issues were reconciled, including any timing issues with seed repayment, if necessary. However, in FY 14 and FY 15, the SGF reserve was spent on debt defeasement. By essentially paying debt service in advance through the defeasement, the supplanted SGF was made available in other areas of the budget as recurring revenue. Thus, the SGF no longer has a significant cash reserve. In years in which a SGF deficit results after paying back borrowed funds, new revenue will be used for cash flow and the budget deficit will be resolved by the end of the ensuing fiscal year. If a deficit in the prior fiscal year is greater than revenue received in the first 45 days of the current fiscal year (the accrual period), then borrowable funds are reduced and/or liquidity issues occur.

The amount of borrowable reserves may change as funds are utilized over the fiscal year, though many of the larger funds are typically included in the borrowable reserves throughout the year. In the event that new SGF is not available to provide the liquidity for the state to continue operations, some mechanism to reduce borrowable reserves would become necessary, though the distribution of any reduction in reserves has not yet been determined.

As of July 15, 2015, the top 25 borrowable funds are listed in Table 1 to the right.

Table 1	
Top 25 Borrowable Funds	Amount
La. Education Savings & Tuition Fund	\$512,109,319
Clean Water State Revolving Fund (name chg.)	\$336,138,512
Capital Outlay Escrow Fund*	\$265,092,423
Natural Gas Restoration Trust Fund	\$248,849,520
State Highway Improvement Fund*	\$130,150,772
Drinking Water Revolving Loan Fund	\$93,237,758
Motor Fuels Underground Tank Fund	\$89,548,637
Unclaimed Property Leverage Fund*	\$67,138,991
Rockefeller Trust & Protection	\$59,849,202
Overcollections Fund	\$51,361,701
Workmans Comp 2nd Injury Fund	\$39,178,203
Rapid Response Fund	\$29,497,793
Rockefeller Fund	\$25,013,418
Video Draw Poker Fund	\$20,232,869
Savings Enhancement Fund	\$18,672,775
La. Public Defender Fund	\$16,674,977
State Hwy Fund #2	\$12,757,060
Community Hospital Stabilization Fund	\$12,724,102
La. Mega-Project Development Fund	\$12,413,789
Crescent City Connection Transition Fund	\$11,597,546
Health Trust Fund	\$11,185,439
Support Education In La. First Fund	\$11,145,101
Nursing Home Residents' Trust	\$10,485,924
Future Medical Care Fund	\$9,898,509
Medical Assistance Program Fraud Detection Fund	\$8,873,161
* No bond proceeds are included	

REVENUE

FY 15 Actual Revenue Collections Relative to Forecast

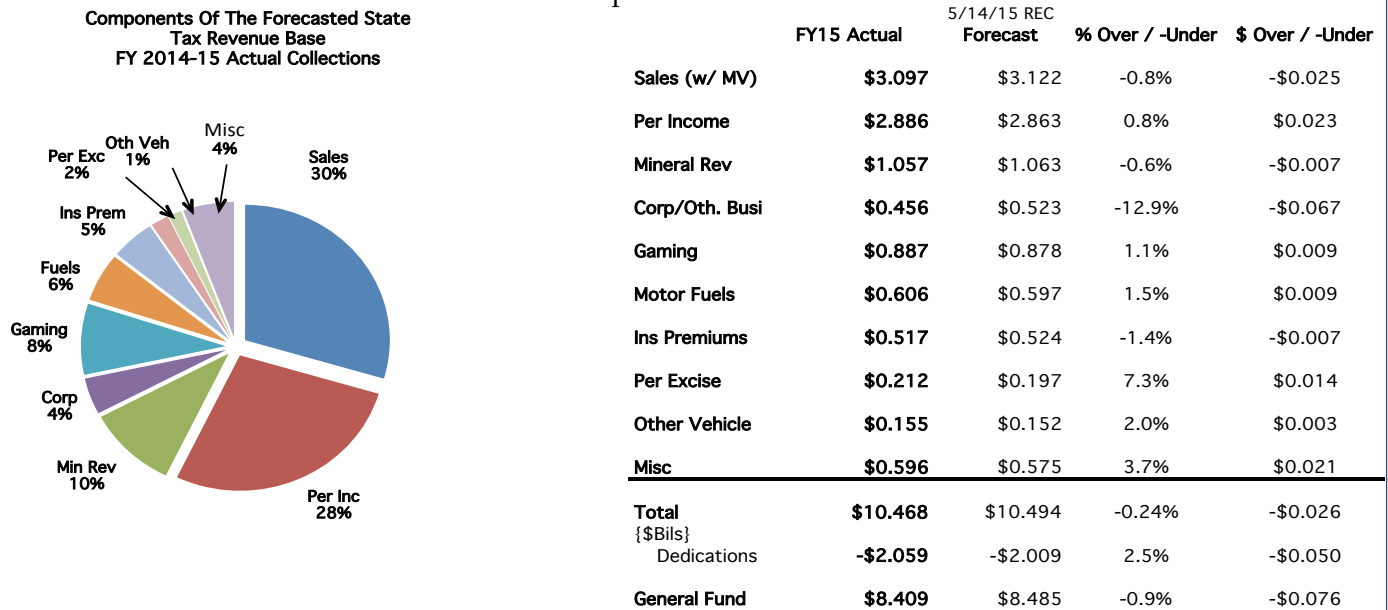
Greg Albrecht, Chief Economist, albrechtg@legis.la.gov

State general fund tax collections in FY 15 were approximately \$76 M less than expected. The official forecast in place at the end of the fiscal year, adopted on May 14, 2015, anticipated \$8.485 billion of revenues available to support state general fund-direct appropriations. Actual general fund revenue collections were \$8.406 billion. Total state tax revenue collections were \$26 M less than expected; \$10.494 billion anticipated versus \$10.468 billion collected, leaving \$50 M of the general fund over-forecast attributable to higher than anticipated dedications of receipts. Graph 1 on the next page combines nearly forty major state tax receipts forecast by the Revenue Estimating Conference (REC) into ten categories, and displays their dollar amounts and percentage shares of total receipts, along with forecast amounts and forecast discrepancies.

Although actual collections were lower than anticipated, this was a accurate good forecast. Total collections were only \$26 M less than forecast; a very small 0.245% forecast error. General fund collections were \$76 M less than forecast, also a small error of only 0.901%. Errors were small when compared to

January 2015 forecast, as well; in absolute terms, only 0.731% for total collections, and 0.281% for general fund collections after dedications. However, even these small year-end errors are significant because they reflect over-forecasts and make negative contributions to the ending balance of the state general fund, on both a budget basis and financial accounting basis. These revenue receipts will be combined with expenditures to establish a general fund operational result for the year, the REC-based revenue contribution of which is negative.

Graph 1



The different results for total tax collections and general fund collections are largely explained by two dedications that received substantially greater allocations than were anticipated in the forecast. Revenue designated by the Department of Revenue as associated with tax fraud and the debt recovery was \$16.1 M greater than anticipated. The revenue forecast included \$47 M for these dedications based on the budget plan. However, a total of \$63.1 M was actually allocated to these dedications. A second large case was the Department of Insurance allocation of \$15.6 M more premium tax collections from Bayou Health Program premiums to the Medical Assistance Trust Fund. The revenue forecast included \$35.7 M for these dedications based on historical pattern. However, a total of \$51.3 M was actually allocated to this dedication as a result of a change in the allocation process by the Department of Insurance during the accounting closeout period for FY 15. This resulted in a one-time additional allocation into the dedication in FY 15. This would have normally occurred in FY 16. These two issues combined amount to \$31.7 M of the difference between total and general fund exclusions, and could not be anticipated in the forecast.

Material forecast error by dollar amount and by revenue source include corporate collections, which were nearly \$85 M less than anticipated; a 28% error. Monthly collections ran well ahead of prior year receipts all year until the very end of the year; the month of June and the accrual period, when larger than normal credits were claimed, possibly in response to the reductions in numerous credits enacted in the legislative session. Nearly offsetting errors occurred in the forecasts of personal income tax and general sales tax, with actual income tax receipts \$23 M more than anticipated while sales tax receipts were \$29 M less than expected. These are absolute errors of only 0.8% and 1.1%, respectively, on the two largest sources of state tax revenue; reasonable margins of error for both taxes. Severance tax and royalty receipt errors were partially offsetting, with severance tax collections \$23 M or 3.3% more than expected, and royalty receipts \$16 M or 5.5% less than expected. Severance tax held up relatively well most of the year, probably reflecting the natural gas tax rate fixed by prior year prices and the volumes of horizontal gas being subjected to tax as the large number of wells drilled in the past finally exhaust their exemption status. Royalty receipts suffered all year, reflecting the fact that this revenue source is contemporaneously affected by oil and gas prices, both of which weakened during the year. Tobacco tax collections came in some \$14 M or 9% more than the official forecast, likely the result of wholesalers stockpiling tobacco stamps before the tax rate increase enacted in the legislative session took effect. Riverboat gaming receipts were also \$10 M or 2.5% better than expected, largely on the strength of the new boat that opened in Lake Charles in December. The forecast was increased for this boat, but actual performance outstripped that enhanced expectation.

FY 15 Collections Relative To FY 14 Collections

The overall forecast was good and certain key revenue sources held their own, the year-over-year growth performance was weak. Total tax collections grew by only 1.6% in FY 15 from FY 14; more than twice the growth rate of FY 14, but still mediocre, at best. Ten categories of receipts are shown in Table 2 below over the last two years. The general sales tax finally exhibited decent growth of 3.1%, after three years previous years averaging essentially zero growth. Vehicle sales tax added to that performance with 6.7% growth, actually accelerating from the year before. The personal income tax experienced 4.9% growth, well ahead of the minor absolute drop in FY 14, but still well below where it's long-run growth potential should be. These two taxes make up 58% of the total tax revenue pie, and need to grow simultaneously to reflect a strengthening economy.

Table 2

	FY14 Actual	FY15 Actual	% Growth
Mineral revenue has achieved substantial absolute levels in the revenue base, but its growth is determined by price trends, and it took it on the chin in FY 15 as energy prices weakened all year. Horizontal gas production coming off exempt status probably delayed the price effect in severance tax and kept these receipts from being any worse, but their fall off was a major drag on total state tax receipts.			
Sales (w/ MV)	\$2,991.3	\$3,097.0	3.5%
Personal Income	\$2,750.8	\$2,886.1	4.9%
Mineral Revenue	\$1,379.6	\$1,056.8	-23.4%
Corp/Oth Busi	\$478.8	\$455.5	-4.9%
Gaming	\$855.9	\$886.8	3.6%
Motor Fuels	\$588.9	\$606.4	3.0%
Ins Premiums	\$505.8	\$517.1	2.2%
Personal Excise	\$200.2	\$211.5	5.7%
Other Vehicle	\$152.2	\$154.8	1.7%
Misc.	\$396.6	\$596.4	50.4%
Total (millions \$)	\$10,300.1	\$10,468.4	1.6%

Corporate income and franchise tax revenue also disappointed in FY 15; the third year in a row of declining collections. Consecutive amnesty programs do not appear to be helping base collections, and large credit claims at the very end of the fiscal year reversed what looked like a positive growth finish. This credit surge may have been in response to enacted legislation to reduce the value of numerous credits after July 1.

Gaming revenue, reflecting discretionary entertainment spending, has exhibited very low growth coming out of the 08/09 recession. Growth picked up in FY 15 largely as a result of the December opening of an additional riverboat in Lake Charles. That growth jump will largely be a one-time step up, though, with growth cooling once a full year has passed and the same number of boats are being compared each month.

Motor fuels growth picked up in FY 15, especially in the second half of the fiscal year as falling oil prices worked their way into motor fuels prices, and consumers became more comfortable with the likely permanence of the price drop. The first spending to respond to a price change is the spending on the good or service experiencing the price change, even spending on motor fuel which is a good that exhibits relatively low price-sensitivity.

Personal excise taxes on tobacco, alcohol, and beer products experienced a step-up in growth largely due to the stockpiling of tobacco stamps in advance of the tax rate increases enacted this past session. This is a one-time event that will be reflected in a smaller gain in FY 16 from the tax increases as wholesalers work off the stamp inventory before purchasing more stamps at the new higher tax rate.

Only modest growth was experienced by insurance premium tax receipts and vehicle tax receipts other than sales tax. In the case of premium tax, this growth represented a marked slow down from the two previous years when the new premium base of the Bayou Health medicaid programs were being brought on line.

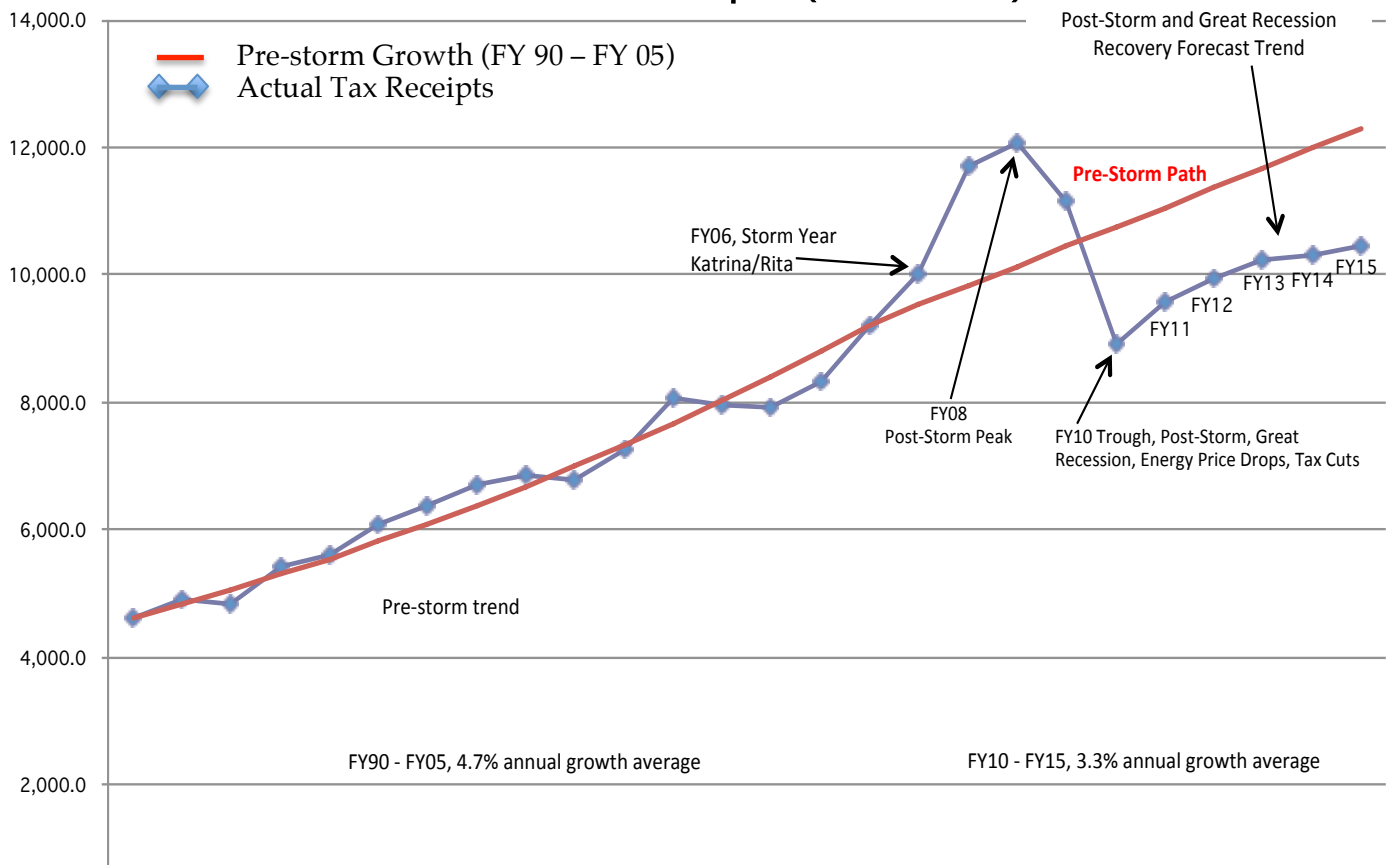
Finally, miscellaneous receipts experienced a large increase as the new revenue source of hospital lease payments associated with the privatization of the State's formerly public hospital system was added to the REC base in FY 15, in addition to a one-time transfer of funds from the Louisiana Insurance Guaranty Association. The lease payments are a permanent revenue flow, but the one-time nature of the transfer from the Guaranty Association sets this category up for a decline next year.

FY 15 Collections In Long-Run Context

Graph 2 below places the FY 15 actual collections in the context of historical collections. The red line is the growth path of tax revenue over the fifteen-year period from FY 90 through FY 05, the fiscal year ending just prior to Hurricanes Katrina and Rita making landfall in late August and September of 2005. Compound annual average tax revenue growth was 4.7% per year. The post-storm revenue boom of FY 06 – FY 08 is obvious. The sharp drop off in revenue as the national recession set in, energy prices peaked and fell, and large state tax cuts took effect is also obvious. Tax collections hit a trough in FY 10, bounced back nicely in FY 11, slowed to a hoped for normal in FY 12, then decelerated in FY 13 and even more in FY 14, before picking up a bit in FY 15.

Over the five-year period from FY 10 - FY 15, the compound annual average growth rate of state tax revenue has been 3.3%, substantially less than in the pre-storm era. The period of recovery and expansion after the 08/09 recession has been one of an absolute lower level of revenue baseline and a slower growing revenue base. The revenue forecast outlook will be reassessed in light of FY 15 actual collections, and will incorporate new economic projections of employment and income, as well as a new energy price outlook. Energy prices are substantially lower in current level and future outlook than when revenue forecasts were last made. While some revenue sources will likely exhibit an enhanced outlook, it is unlikely that direct mineral revenue downgrades can be materially offset within the overall state tax revenue forecast.

Total State Tax Receipts (REC-based) (Graph 2)



EDUCATION

The Taylor Opportunity Program for Students (TOPS)

Jodi Mauroner, Education Section Director, mauronerj@legis.la.gov

For FY 16 the Office of Student Financial Assistance (OSFA) estimates the number of TOPS awards will be 49,776 with an average award amount of \$5,699 for a total program cost of \$284.9 M. The program is currently funded at \$265.2 M (\$200.1 M SGF and \$65.1 M Stat Ded from the TOPS Fund); a difference of \$19.7 M. Additionally, \$2.3 M in supplemental need was not funded in FY 15 nor included in the FY 16 projections, bringing the total projected shortfall to \$22 M.

The LA Grad Act provides tuition authority up to 10% until the institution reaches the average tuition and fee amounts of its peer institutions. These amounts shall be weighted based upon the median household income in Southern Regional Education Board (SREB) states in which the peer institutions are located. Upon reaching their peer rates, institutions may increase tuition and fees in amounts as necessary to maintain rates as close to the average as possible. However, public colleges and universities have several limitations relative to their on-going ability to raise tuition per the authority granted by the LA Grad Act. Some institutions are close to the SREB tuition cap and may not be able to raise the full 10% amount authorized. Other institutions may choose not to impose the full 10% increase in order to maintain access for low-income students. Other institutions may fail to meet LA Grad Act performance objectives required to raise tuition.

In addition to tuition increases, Act 377 (HB 152) of 2015 authorizes the public postsecondary education management boards to establish and adjust fee amounts at institutions under their respective management and supervision. The authority shall apply for the 2015-16 and 2016-17 academic years only. Institutions may impose per credit fees and differential fees for certain programs. These fees are not covered by the TOPS scholarship, so to the extent institutions assess these fees in lieu of tuition increases, TOPS will not be impacted. While some institutions have requested approval for fee increases effective this fall semester, others are still evaluating the extent to which they will request increases or new fees as a result of this new authority. Table 3 reflects the tuition and (Act 377) fee increases approved as of August 2015.

OSFA annually requests funding in October using projections based on TOPS prior academic year expenditures. These projections are updated during the legislative session (March) based on the fall term billing data. Additionally, projections include anticipated tuition increases and a five-year average retention factor. Even with revised projections, appropriations contained in the General Appropriation Bill (GAB) do not always reflect the amount requested by OSFA. However, appropriations for the TOPS program are *"More or Less Estimated"*. This means that the legislature has committed to fully funding the program, notwithstanding the amount reflected in the General Appropriation Bill. As such, shortfalls in the program have been addressed with In-House (DOA) BA-7 adjustments between March and May for FY 11 through FY 13 and with an appropriation in the Supplemental Appropriation Bill in FY 14.

Since eligibility determination is an ongoing process, prior year payments are a recurring issue that contributes to funding shortfalls. In an effort to address this issue, the projection model was revised in March 2015, to include adjustments for payments associated with awards from prior years. These adjustments address audit corrections, ACT score cancellations, exceptions and students returning from out of state or the military.

Table 3			
FY 16 Projected Increases*		Tuition	Act 377 Fee Adjustments*
Southern System			
	Southern BR	10%	0%
	Southern NO	10%	0%
	Southern Shreveport	0%	10%
University of LA System			
	Grambling	8%	0%
	LA Tech	2%	8%
	McNeese	10%	3%
	Nicholls	0%	0%
	Northwestern	8%	2%
	Southeastern	9%	2%
	UL Lafayette	10%	10%
	UL Monroe	10%	0%
	UNO	10%	0%
LSU System			
	LSU Alexandria	2%	0%
	LSU A&M	10%	0%
	LSU Eunice	7%	0%
	LSU Shreveport	8%	0%
LA Community & Technical College System			
	Baton Rouge CC	10%	0%
	Bossier Parish CC	10%	0%
	Delgado CC	10%	0%
	Delta CC	10%	0%
	Fletcher CC	10%	0%
	Nunez CC	10%	0%
	River Parishes CC	10%	0%
	South LA CC	10%	0%
	Sowela CC	10%	0%
*Does not reflect student self-assessed and energy fee increases Some Institutions may choose to implement fee increases in Spring 2016			

Billings received at the end of FY 15 were put on hold for lack of appropriation. As part of the revised projection model, \$2.6 M in prior year adjustments was rolled into the FY 16 projection of \$284.9 M (and is included in the \$19.7 M shortfall). However, actual billings for FY 15 required an additional \$2.3 M in funding needs; these obligations were carried forward to FY 16 and payments have been made in the first quarter of the fiscal year. Added to the funding shortfall, this \$2.3 M obligation increases the projected shortfall from \$19.7 M to \$22 M. As with all projections, this amount is subject to change based on the behavior of students currently receiving TOPS awards as well as actual amounts for prior year award adjustments.

Table 4 reflects historical award amounts projected and funded in the GAB, as well as any supplemental appropriations for both the current budget year as well as adjustments for awards from prior years, which have been approved over the past five years.

Table 4						
OSFA EXPENDITURES						
	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15*	FY15-16**
OSFA March Projection	\$ 139.4	\$ 159.0	\$ 172.2	\$ 217.5	\$ 250.0	\$ 284.9
GAB Funding	\$ 134.6	\$ 154.3	\$ 172.2	\$ 217.5	\$ 250.0	\$ 265.2
Supplemental						\$ (19.7)
Current Year Awards	\$ 8.7	\$ 9.1	\$ 17.2	\$ 4.0	\$ 2.3	
Prior Year Awards	\$ 1.1	\$ 3.3	\$ 2.6	\$ 3.0	\$ 2.6	\$ (2.3)
Total Expenditures	\$ 144.4	\$ 166.8	\$ 192.1	\$ 224.6	\$ 250.0	\$ (22.0)
* FY 15 Supplemental Needs was not funded						
** Projected shortfall based on projected expenditures to actual budget and carryforward of FY 15 unfunded supplemental need						

HEALTH & HOSPITALS

\$9 Million Federal Fund Liability in the Women, Infants and Children (WIC) Program

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On November 7, 2014, the federal Food and Nutrition Service (FNS) agency issued a \$9 M claim against the Louisiana Women, Infants and Children (WIC) program for improper payment of federal funds.

The Office of Public Health (OPH) within the Department of Health and Hospitals (DHH) operates the WIC program. The program provides food, nutrition counseling, breastfeeding promotion, breastfeeding support and access to health services to low-income pregnant, breastfeeding, and postpartum women as well as infants and children up to age 5. The Louisiana WIC program serves over 130,000 women and children every month. The program is funded solely with federal funds and accounts for one-third of OPH's budget. The 2015 WIC grant is \$120.3 M.

Based on a program management evaluation of the Louisiana WIC program in 2013, FNS identified OPH management failures that resulted in overpayments to vendors (grocery stores). A performance audit by the Legislative Auditor in November 2013 substantiated problems with misclassification of vendors to incorrect tiers that resulted in overpayments to these grocery stores. In addition, FNS found that DHH failed to properly bill for infant formula rebates due the State from FY 2007 to FY 2010. As a result, on November 7, 2014, FNS issued a claim of \$9 M against the Louisiana WIC program.

DHH has negotiated a settlement with FNS to repay \$8.2 M. As part of the settlement, DHH will make a \$2.05 M cash payment to FNS by September 30, 2015. The cash payment must be made with state general fund. Within 3 years, DHH agrees to invest another \$2.05 M into the WIC program to improve vendor integrity activities, such as ensuring grocery stores are assigned to correct tiers, rebates are processed for infant formula and the implementation of routine compliance investigations. The investment funds must be made with state general fund and are not available for Federal match. If the DHH meets all the WIC program performance measures through September 30, 2020, FNS will forgive the remaining \$4.1 M liability.

The \$2.05 M cash payment required in FY 16 is not appropriated in DHH's budget. DHH has not indicated which programs or services will not be funded as a result of the \$2.05 M that must be sent to FNS by the end of September. DHH plans to seek repayment of the \$9 M liability from the company that designed the WIC billing system with incorrect tiers as well as infant formula manufacturers that benefited from not issuing rebates. To date, DHH has not entered into negotiation or filed suit in court against either. Therefore, any potential reimbursement received from litigation is not anticipated in FY 16.

GENERAL GOVERNMENT

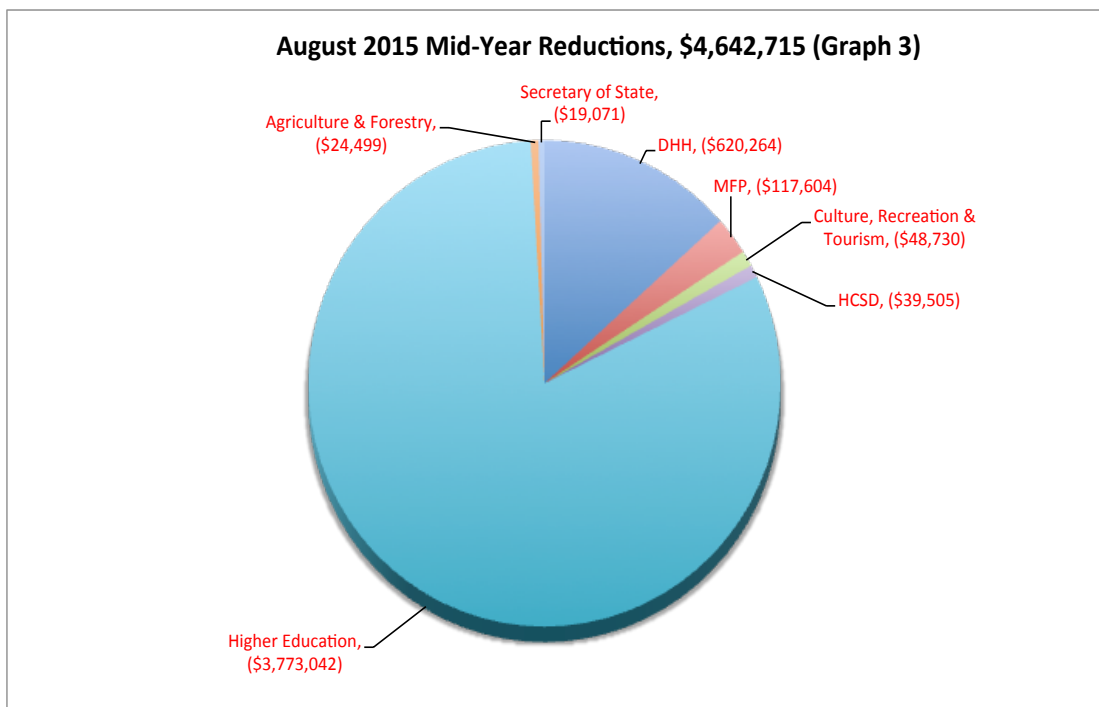
August 2015, FY 16 SGF Mid-Year Reductions

J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

The Joint Legislative Committee on the Budget (JLCB) recommended to the Division of Administration (DOA) at its 8/14/2015 meeting to reduce the FY 16 SGF appropriation (FY 16 Supplementary Section appropriations) by approximately \$4.6 M. Graph 3 below is a breakdown of the state agencies impacted by these SGF reductions.

As was discussed in last edition of *Focus on the Fisc*, the various revenue measures enacted by the legislature during the 2015 legislative session have potential revenue interactions that are anticipated to reduce the aggregate total of the bills by approximately \$5.8 M. After accounting for these potential interactions, the FY 16 SGF budget appropriates approximately \$4.6 M more than anticipated revenues.

The Revenue Estimating Conference met on 8/14/2015 prior to JLCB to officially consider and adopt all session revenue actions relative to the current fiscal year and subsequent fiscal years' revenue forecast, which included these interactions. Therefore, the DOA presented an FY 16 SGF Fiscal Status Statement that identified the \$4.6 M as an *other adjustment* needing to be implemented in the future if the current revenue forecast remains static. However, the JLCB recommended that these reductions be processed.

**Office of Group Benefits (OGB), Fund Balance Update**

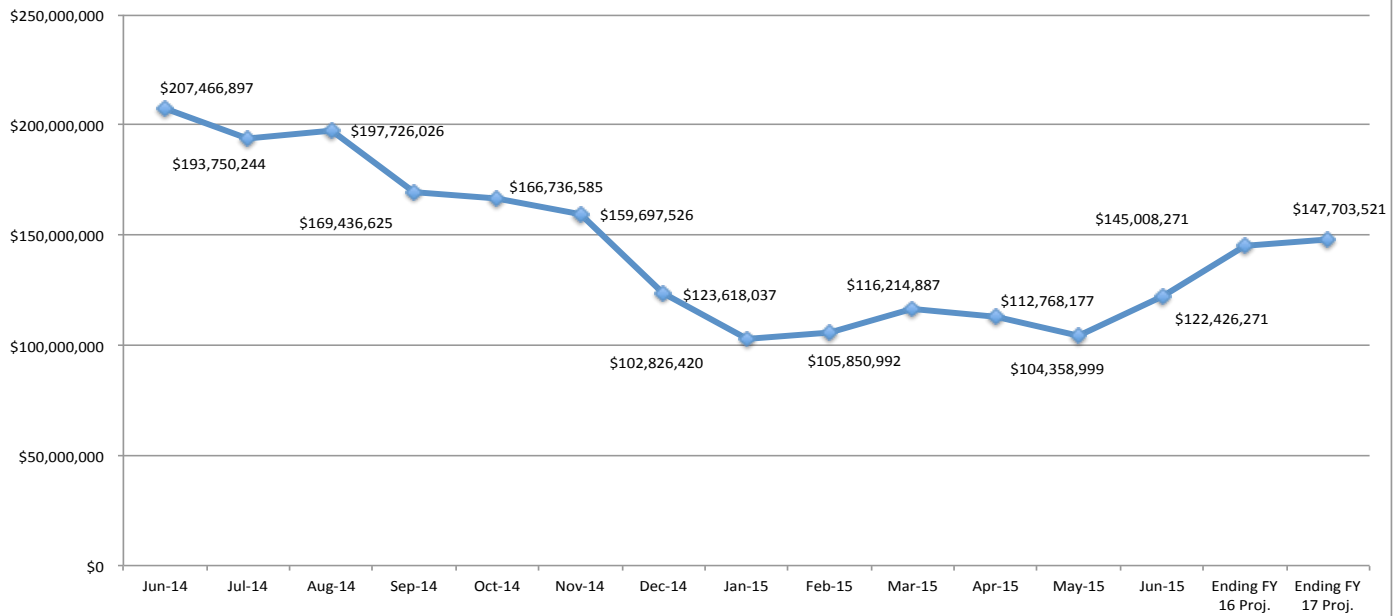
J. Travis McIlwain, Gen. Govt. Section Director, mcilwait@legis.la.gov

Based upon the FY 15 unaudited OGB actual revenues/expenditures, the overall program's expenditures decreased and revenues have increased compared to FY 14. This likely occurred due to the significant changes to the health benefit offerings to state employees, increasing the premiums paid by the employer (state) and employee (state employee) and modifying the administrative management of the program. This positive impact resulted in the plan not eroding as much into its fund balance as initially projected pre-health plan changes.

Approximately 12 months ago if no changes had occurred based upon the data available at that time, the program's fund balance may have been reduced to well below \$50 M. However, the current unaudited ending year FY 15 fund balance is anticipated to be approximately \$122 M. Graph 4 on the next page is the program's monthly fund balance activity in FY 15.

Last year the LFO reported to the Joint Legislative Committee on the Budget (JLCB) the following:

- Through FY 14 Actuals, OGB's average monthly "burn rate" was \$16.2 M per month, meaning on average the program was spending \$16.2 M more per month than the revenues being collected per month;
- From FY 08 to FY 14, OGB's annual expenditure growth rate was approximately 6% annually.

FY 15 OGB Fund Balance Activity (Graph 4)

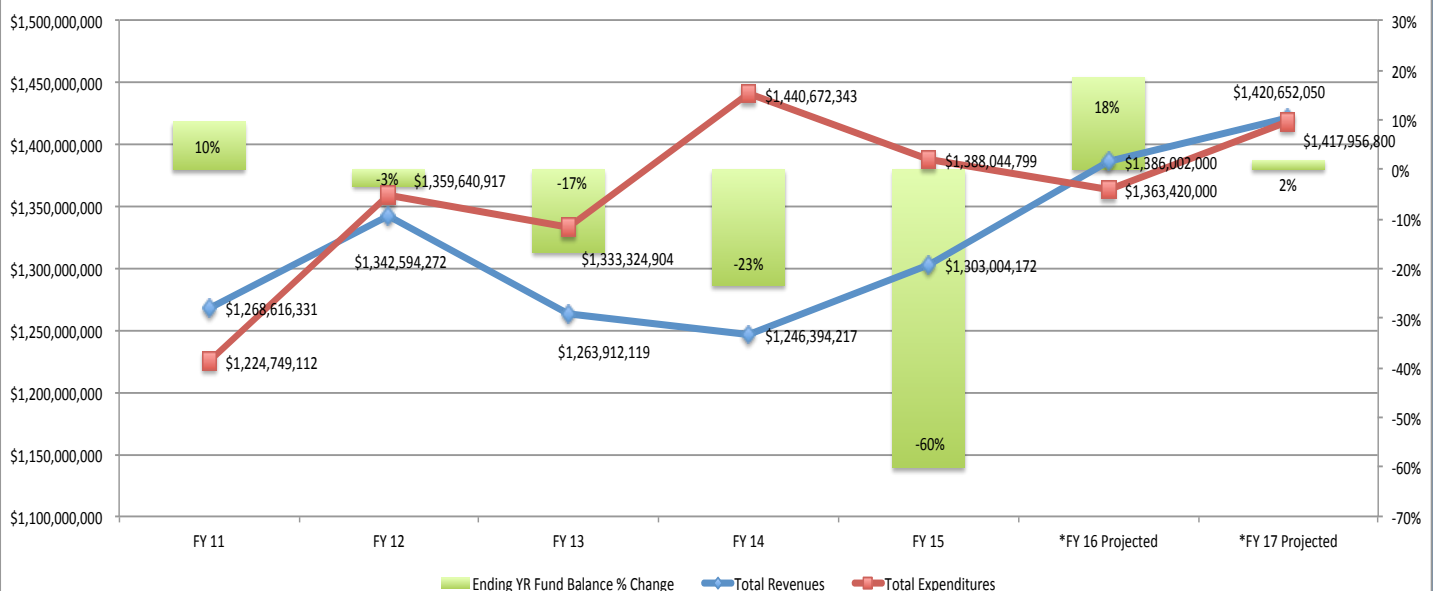
With the significant health plan changes being in effect for less than a year (prescription drug changes went into effect in September 30, 2014, health plan design changes went into effect in March 2015) and based upon the FY 15 unaudited data from OGB, the plan's overall expenditures in FY 15 were as follows:

- Overall program expenditures decreased approximately 4% from FY 14 actuals, which reduced the overall average growth rate of program expenditures to 5% per year from FY 08 to FY 15 as opposed to 6% annually from FY 08 – FY 14;
- Reduced the monthly burn rate from \$16.2 M per month at the end of FY 14 to \$7.1 M per month at the end of FY 15 as show in Table 5 below.

Table 5

	Through FY 14	Through FY 15
Expenditure Growth	6%	5%
Monthly "Burn Rate"	(\$16.2)	(\$7.1)

Graph 5 below depicts the percent change in OGB fund balance along with the total annual revenues and expenditures of the program from FY 11 through FY 15. In addition, the FY 16 and FY 17 numbers are expenditure and revenue projections from OGB's contract actuary based upon the latest historical data collected.

FY 11 - FY 15 Actual Revenues, Expenditures & Ending YR Fund Balance % Change, Plus Projected FY 16 & FY 17 (Graph 5)

To the extent the expenditure trend continues and if premiums are raised at least 5% again in FY 17, according to OGB's contract actuary the program's fund balance is anticipated to be approximately \$147.7 M at the end of FY 17, which is within the actuary's recommended range of \$143 M to \$231 M.

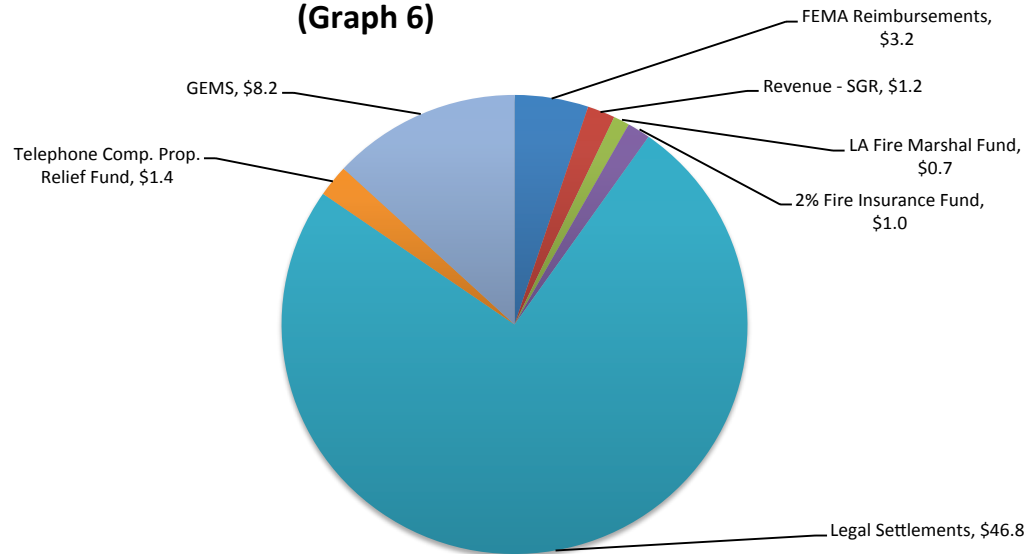
Overcollections Fund Is Currently Short in FY 16

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To date the Overcollections Fund is approximately \$62 M short in the amount anticipated to be collected at this point in the fiscal year. There is approximately \$114.6 M appropriated in FY 16 (Medicaid Program) and the fund's FY 15 close-out balance, which will be utilized to support FY 16 appropriations, is approximately \$52 M. The FY 16 appropriation is dependent upon FY 15 ad hoc resources (officially recognized by REC) flowing into the Overcollections Fund. Graph 6 below is a depiction of the significant resources that have not yet been collected to date.

To the extent these resources are never collected, the FY 16 appropriation (\$114.6 M) contained within the Medicaid Program will not be met and may result in budget reductions unless another revenue source is identified. The Medicaid Program utilizes these ad hoc resources as a match source. Therefore, any budget reductions have a greater impact due to loss of federal match.

Left To Collect - Overcollections Fund (in millions)
(Graph 6)



Effects of Statutory Transfers of Self-Generated Revenues from the LA Racing Commission to the Board of Regents

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In August 2015, the Louisiana Legislative Auditor (LLA) released a financial audit of the Louisiana Racing Commission (LRC), finding that LRC is noncompliant with two provisions of LA R.S. 4:218(A). The statute allows LRC to collect a license fee up to 1.5% of the total amount of all wagers at off-track betting parlors (OTBs), which for budgetary purposes is classified as self-generated revenues (SGR). LA R.S. 4:218(A) also sets a priority list for how the 1.5% license fee must be distributed.

The first priority of LA R.S. 4:218(A) is to distribute 14% of all fees collected to the LA Thoroughbred Breeders Association and the LA Quarterhorse Breeders Association for breeder awards, with distribution to each association being proportional to the amount wagered on each breed. The remaining priorities distribute the next 33% of revenues to the Board of Regents and allow LRC to keep the remaining balance (53%) of the 1.5% license fee.

LRC has collected the 1.5% license fee since FY 88, when the statute was first enacted. However, LRC has not made distributions to the Board of Regents as outlined by statute, instead using the balance of funds from the 1.5% license fee left after breeder awards to fund personal services, which resulted in the use of more than the 53% allowed by statute in some years from FY 09 to FY 14 by the LLA's estimation.

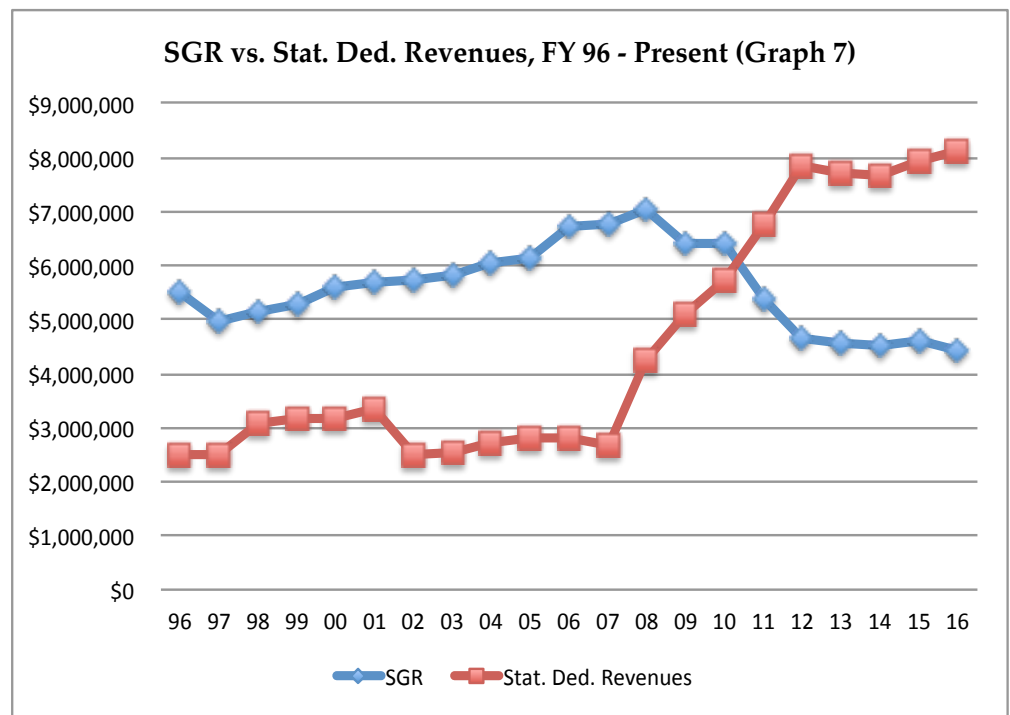
When possible, LRC has reverted excess revenues from the 1.5% license fee to the state general fund.

According to LRC data beginning in FY 09, SGF reversions from FY 09 to FY 14 have totaled approximately \$4.2 M. However, SGF reversions in FYs 10, 11, and 14 were less than LRC's statutory obligation to the Board of Regents, leading to the LLA's finding that LRC has spent more than the 53% of the 1.5% license fee allowed by statute.

LRC has never transferred SGR to the Board of Regents as required by LA R.S. 4:218(A), nor is there a statutory mechanism for LRC to transfer these revenues. The LLA estimates that LRC owes the Board of Regents approximately \$15 M from FY 97 to FY 15, or an average of \$789,500 annually. To fund the LA Racing Commission's statutory obligation to the Board of Regents, the legislature would have to appropriate the funds from LRC's self-generated revenues each fiscal year.

Since the legislature enacted the current language of LA R.S. 4:218(A)(2) in 1990, LRC's budget structure has changed dramatically and fully funding it may adversely impact a changing budgetary situation. LRC previously operated entirely using self-generated revenues derived from taxes collected on pari-mutuel wagering, admissions fees, occupational licenses, fines, and other sources until FY 96, when other means of finance were utilized in the form of revenues from statutorily dedicated funds. Since FY 96, SGR collections have declined by 21.3%, from \$5.4 M in FY 96 to \$4.4 M in FY 16. Graph 7 below outlines SGR collections versus statutorily dedicated revenues from FY 96 to the present.

Statutorily dedicated funds made up as little as 31% (\$2.5 M total) of LRC's budget in FY 96. The first statutorily dedicated funds in LRC's budget were appropriated from the Video Draw Poker Purse Supplemental Fund, which can only be spent on horse racing purses and not day-to-day expenses. As SGR collections have declined for LRC, revenues from the Gaming Control Fund began supplementing SGR collections in FY 08. The Gaming Control Fund receives revenues from all fees, fines, and state taxes imposed under Title 27 of the LA Revised Statutes, which provides for gaming control statewide.



LRC's appropriation from statutorily dedicated funds totals 65% of its budget in FY 16, while self-generated revenues make up the remaining 35%. Of the statutorily dedicated revenues, only revenues from the Gaming Control Fund can be used for day-to-day expenses.

With SGR collections falling over time and LRC becoming more reliant on revenues from the Gaming Control Fund to carry out its day-to-day activities, transferring approximately \$789,500 in SGR annually to the Board of Regents pursuant to LA R.S. 4:218(A) would impact LRC's ability to carry out its duties in regulating the horse racing industry unless an additional appropriation from another revenue source is made in its place. The LRC states they have been using these funds for personal services. A transfer of \$789,500 annually is equivalent to between 18% and 21% of LRC's personal services expenditures between FY 08 and FY 16.

The transfer of monies would also result in LRC's reliance on appropriations funded via non-racing activities rather than SGR, as SGR collections have been trending downward over time. Similarly, while LRC has been reverting excess SGR to the state general fund over time, the recurring reliability of these

funds is uncertain and relying upon them may cause a gap in funding if SGR collections are not in excess of LRC's expenditures.

Department of Wildlife and Fisheries Oyster Hatchery Program

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The oyster hatchery program currently managed by the Louisiana Department of Wildlife and Fisheries (LDWF) began in 1990 as a venture of the LSU Ag Center to study oyster development patterns in the wake of a prolonged drought. However, prior to the 2010 oil spill, the project moved to the LDWF facility on Grand Isle to utilize the technology and facilities offered by the department. The program gained more prominence in the wake of the BP oil spill in 2010 as approximately 50% of the acreage used for public oyster grounds was impacted by oil sheens. While the total impact of the spill on the oyster population is not fully known, oyster landings east of the Mississippi River and in the Barataria Basin have decreased substantially since 2010. Statewide landings have remained relatively stable, but this is largely due to the heavy fishing of areas that are not traditionally harvested, raising concerns of overfishing these areas and the impact on population sustainability. In response to these growing concerns, a new facility was created to help bolster the oyster population based on research conducted by the LSU Ag Center. Whereas the old hatchery only produced oysters for study, the new hatchery would be able to produce substantially more oysters than previous versions of the program.

The new facility was constructed with \$3 M in Early Restoration money from the Natural Resource Damage Assessment process. According to LDWF, funding for annual operation and maintenance will initially come from the Conservation Fund with plans to change the source of funding to the Public Oyster Seed Development Account in 2016, potentially through proposing an amendment to the statute. Act 343 of 2015 was enacted to increase the rental rates of public oyster beds by \$1 per acre in order to fund the operations of the oyster hatchery project by raising approximately \$400,000 in new revenue annually. Since the hatchery opened in the spring of 2015, annual operational expenses are difficult to project. However, the LDWF estimates between \$300,000 and \$360,000 in annual expenditures.

Based on information provided by LDWF regarding the developmental cycle of the oysters, it is estimated that approximately 9.6 million new oysters could be added to the public oyster beds annually as a result of this program. According to economic indicators given by the LSU Ag Center and LDWF, it is anticipated that these oysters could generate between \$2.5M and \$2.9M in retail sales annually.

Youth Services - Office of Juvenile Justice (OJJ) Structural Funding Issues

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Act 16 of the 2015 Regular Session of the Legislature included an \$8.1 M SGF net reduction in OJJ's FY 16 budget when compared to the FY 15 budget. The reductions were for certain Government Efficiencies Management Support (GEMS) recommendations outlined in the GEMS Final Report. Of that amount, \$373,000 was reduced because the agency would implement the recommendation to increase its Title IV-E claiming of candidacy cost to generate an additional \$373,000 in federal funds in FY 16. However, during the initial phase of implementation, it was determined that revisions were necessary to the time study that is used to calculate the federal reimbursement. These changes have resulted in an actual reduction in the amount of reimbursements rather than an increase.

The change to the time study had a double impact on OJJ. In addition to the SGF reduction, the agency projects it will need approximately \$3 M in SGF as a result of the changes. The change to the time study was effective October 2014 and OJJ received only \$2.6 M in reimbursements for FY 15 and a supplemental appropriation in the amount of \$3.9 M in SGF was necessary to fund operating expenses previously funded in large part by the Title IV-E reimbursements. However, instead of adjusting for this reduction, the FY 16 budget contemplated an increase in reimbursements and further reduced SGF by \$373,000. The agency has continued to carry forward a seed from Treasury that now totals \$5.68 M for which there is no anticipated revenue stream to repay.

In addition to the issues noted above, there is also a Title IV-E Cost of Care rate setting unresolved issue that is currently under review at the state and federal level that may increase the agency's need for more SGF in the current fiscal year. Once the review is finalized, the daily rate will change. It is not known at

this time if the daily rate will increase or decrease from the current rate, so any additional impacts to OJJ's budget cannot be determined at this time.

What is Title IV-E?

The Title IV-E is a federal grant from the U.S. Social Security Administration (SSA) the purpose of which is to provide federal assistance to enable states to provide in appropriate cases, foster care and transitional independent living programs for children who otherwise would have been eligible for other assistance. The federal government reimburses states for maintenance, administrative and training costs. The administrative costs are primarily overhead costs associated with administering the Title IV-E program, case management activities and cost of travel to children's judicial or case review. Candidacy costs are also included in the administrative costs.

Random Moment Sampling (RMS)

Per the Department of Children and Family Services (DCFS) Cost Allocation Plan 10/1/2014 (State Plan), RMS also known as a time study, is a survey method utilized to identify the amount of staff time spent on various programs and activities. It consists of a number of observations of employee activities taken at random intervals. Based on these observations, the total effort of a group of employees can be determined with a high degree of confidence and will approximate the same results as would be obtained by observing employees 100% of the time. This is a federally required process used to determine the amount of time and costs spent on various activities.

DCFS and OJJ Partnership

DCFS is the recipient of the Title IV-E federal grant and OJJ is a sub-recipient. Historically, the agencies enter into an agreement relative to the provisions of and reimbursement for foster care services for certain children in the custody of OJJ including administrative costs and training costs.

As part of the agreement OJJ agrees to provide pre-placement prevention activities in order to reduce the number of children who would otherwise be placed into out-of-home ("foster") care and to enable "reasonable candidates" for foster care to remain at home in a safe and stable environment. A child is considered a "reasonable candidate" when it is documented that he/she is at serious risk of removal from the home as evidenced by the State agency either pursuing his/her removal from the home or making reasonable efforts to prevent such removal.

Changes to the Eligibility Certification Process

In December of 2013 and 2014 the Legislative Auditor issued audit findings associated with the Foster Care Program for both DCFS and OJJ regarding the use of indirect cost rates, per diem rates, and percentage of eligible juveniles in cost claims submitted. While the reports identified a potential net increase in federal reimbursements, the random sampling used by the auditor identified both underbilling and overbilling practices. However, the LFO has not been able to identify budget adjustments as a result of these findings.

In May 2014, Alvarez and Marsal issued the GEMS report which recommended that OJJ capture additional federal funds for Title IV-E eligible youth in their custody and, as noted above, the budget was adjusted to reflect this means of finance swap, replacing SGF with federal funds. While the recommendation was made to OJJ, the sub-recipient of the federal funds; the recipient, DCFS would need to take an active lead role on the steps necessary to implement this recommendation as any change must be in compliance with the federally approved State Plan agreement between the DCFS and the federal agency. Upon initial review, it was determined that revisions were necessary to update the RMS. The changes were not as intended (to capture the additional candidacy cost) but instead realigned the time study to capture only the Title IV-E eligible activities, population and programs. This immediate action revised the time study from including all youth and all factors to only those that are Title IV-E eligible. More specifically, the revision narrowed the scope to activities associated with the Non-Secure (Foster Care) and In-Home – Foster Care Candidates. This change impacts the revenue source used to fund the operating expenses of the agency because it reduces the number of factors, programs and population used to determine eligibility. In FY 13 and FY 14 OJJ received on average more than \$5 M in Title IV-E administrative reimbursements; however in FY 15 it received \$2.6 M and projects to receive a like amount in FY 16. As such, OJJ will require an alternate revenue source to replace approximately \$3 M in federal funding necessary for ongoing operating expenses of the agency.

Cost of Care

Cost of care is a component of the maintenance costs which include but are not limited to food, shelter and clothing for youth who are Title IV- eligible. The current rate setting calculation methodology includes factors that are ineligible. For instance, certain facilities that house Title IV-E eligible youth included the entire operating budget, then divided that number by the number of beds and the number of days to determine a daily rate. Upon review by DCFS, it was determined that it was not a “reasonable” rate and it needed to be adjusted. Proposed changes are still under review at the state and federal level and impacts cannot be determined at this time.

Treasury Seed

State law provides a mechanism for agencies with expenditure needs before revenues are actually collected, generated and/or reimbursed to request a seed for the operation and budget needs of the agency. For the past three years OJJ has received a seed, which has been repaid with a new seed. For FY 16, the seed amount is \$5.68 M. The agency does not anticipate receiving revenues sufficient to repay the full amount of the seed likely requiring a supplemental appropriation at the end of FY 16.

As illustrated in Graph 1 on the previous page, the state's peak year for state effort expenditures was \$15.7 B in FY 08, which consisted of approximately \$10.2 B of SGF expenditures. Since FY 08, overall state expenditures have decreased by approximately \$4.7 B, or approximately 20%, while state effort expenditures have decreased \$800 M, or 5%.

The expenditure growth rates can be put into context by comparing them to the average annual growth over this same period of total state gross domestic product of 2.3% per year, of private state gross domestic product of 4.1% per year and of state personal income of 3.8% per year.

Note: The source of the information depicted in the table is from the Office of Planning & Budget's State Budget Documents, which are released annually in October. This information excludes double counts, which historically are areas that could be counted twice in the total budget such as interagency transfers between state agencies.

State Infrastructure Bank (Amd#2), 2015 Session

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Act 471 (HB 618) is a constitutional amendment explicitly authorizing the use of public funds to capitalize the Louisiana State Infrastructure Bank to fund transportation projects with a public purpose. The amendment does not directly impact any state expenditures or revenue, but adds the capitalization of the SIB to the list of constitutionally approved uses of public funds. This will allow the state treasury to deposit state funds into the SIB through direct appropriation or as investment of state funds without limit. The consequences to state investment liquidity and earnings are not known, and the calculation of return on investment is not specified.

The State Infrastructure Bank was statutorily created in Act 431 (HB 767) of 2015 Legislative Session along with the LA State Transportation Infrastructure Fund. The Bank will operate essentially as a revolving loan facility offering a financing alternative to certain transportation projects outside of the State Capital Outlay process and the official calculation of Net State Tax Supported Debt for state debt limit purposes. The projects will be chosen by a Board made up of representatives from the Department of Treasury, the Department of Transportation and Development, the House and Senate Transportation Committees, the LA Bankers Association, the State Board of Certified Public Accountants, and the LA Good Roads and Transportation Association. The funding of projects will also require the written approval of the State Bond Commission.

Act 431 (HB 767) provides no direct funding itself for the Bank, but does provide that 7% of 30% of any actual mineral revenue associated with the \$100 M Budget Stabilization Fund base threshold increase provided in Act 257 of 2015 (SB 122, raising the base amount from \$850 M to \$950 M), is to be deposited to the LA State Transportation Infrastructure Fund beginning in FY 18. Should a full \$100 M of actual mineral revenue be attributable to Act 257, the Fund would receive \$2.1 M, and the balance would be deposited into the Transportation Trust Fund. However, under the current official revenue forecast of August 2015, the earliest any mineral revenue between the old \$850 M base amount (plus severance tax and royalty allocations to the producing parishes) and the new \$950 M base amount (plus severance tax and royalty allocations to the producing parishes) will occur in FY 18 in an estimated amount of \$4.4 million, followed by \$7.2 M and \$9.3 M in FY 19 and FY 20, respectively. Mineral revenue forecasts are, of course, subject to change and actual results will likely differ from those currently expected.

Had amendment #1 been adopted, excess mineral revenue above the new higher base threshold amount (plus severance tax and royalty allocations to the producing parishes) would have been directed to the Transportation Stabilization Subfund within the new Budget and Transportation Stabilization Trust formed out of the existing Budget Stabilization Fund (the State's rainy day fund). That amendment would have capped the Budget Stabilization Subfund at \$500 M; a balance already achieved, thus directing excess mineral revenue to the transportation subfund. Monies in that subfund were to be used for planning, design, construction, and maintenance connected with the state highway program, and the Intermodal Connector Program.

HEALTH & HOSPITALS

Impact of HCR 75 on Medicaid Expansion

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HCR 75 is the first annual hospital resolution authorized under Act 438 (constitutional amendment) passed in 2013 (which became effective on 12/9/2014). The resolution provides for a potential new revenue source to Medicaid in FY 17 through a hospital assessment. The revenue generated in FY 17 through a hospital fee is conditioned upon the expansion of Medicaid under the ACA in FY 16.

In addition, the resolution includes multiple provisions that impact payments to hospital providers. One significant provision of the resolution will impact the level of State General Fund (SGF) savings related to Medicaid Expansion. Article VII, Section 10:13 of the Constitution of Louisiana provides that the first resolution passed by the legislature will set a base reimbursement level, or rate floor for certain Medicaid payments. HCR 75 (the first resolution) specifically defines and establishes the Medicaid payments subject to the rate floor, which included Disproportionate Share Hospital (DSH) payments for hospital uncompensated care costs. As a result, it is not anticipated DSH will be able to be reduced in future fiscal years to the extent reflected in the LFO's latest Medicaid Expansion analysis (HCR 3 of the 2015 Regular Legislative Session), if at all. Based on this provision alone, the short-range savings (net State General Fund offset in Medicaid) associated with Medicaid Expansion are likely to be diminished significantly.

Other important provisions of the initial resolution are reflected below:

- The first resolution does not expand Medicaid, but authorizes an assessment on hospitals in FY 17 if the state expands Medicaid by a certain date (April 1, 2016).
- The hospital assessment does not pay for the entire cost of Medicaid expansion, but only the costs associated with delivery of hospital services to new Medicaid eligibles. *Information provided by the Department of Health and Hospitals indicates hospital services represent approximately 40% of the cost related to the new Medicaid enrollee.*
- To the extent there are temporary SGF savings (in which the SGF offset is greater than the SGF costs associated with expansion), any savings amount is re-directed to the hospital program for rate increases.
- The constitution authorizes annual resolutions related to the hospital assessment. Future resolutions can alter the assessment amount and how any assessment amount can be used in the Medicaid program, if at all. It is assumed hospital assessments will terminate annually and require annual resolutions to continue future assessments and collections.
- *Not expanding Medicaid by the deadline outlined in the first annual resolution (HCR 75) does not necessarily prevent a hospital assessment in a subsequent resolution, nor is an assessment permanently set in the first resolution.*

Severing Relationship of Northern Hospital Partnership Raises Fiscal Questions

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The LSU Board of Supervisors filed a petition for declaratory judgment and injunction with the 19th Judicial District Court on September 25, 2015, seeking to sever the relationship of the Biomedical Research Foundation of Northwest Louisiana (BRF) from the operation of the two northern public hospitals, LSU Hospital at Shreveport and the E.A. Conway Medical Center at Monroe. BRF has indicated its intent to challenge its removal as private partner and the results of any such challenge are unknown at the current time. A hearing has been set in state court for November 4-5 to consider BRF's motion to dismiss LSU's petition. The success or failure of BRF's legal strategy could impact the ongoing operations, revenues and expenditures of both the partnership as well as the state's general fiscal condition.

The dissolution of the partnership raises numerous questions and concerns regarding the financial stability of the two northern public hospitals, as well as the medical academic program at LSU Health Science Center - Shreveport (LSU HSC-S). The Legislative Fiscal Office sent an inquiry to LSU about potential issues and is awaiting a formal response. LSU indicated that under the auspices of the original CEA, a not-

for-profit corporation known as Academic Health of Northwest Louisiana (AHNL) would step in as an interim administrator of the partnership. AHNL is not an affiliated LSU entity, but LSU reports that an undisclosed group of civic leaders will administer the company during the transition toward identifying a new private partner through a competitive process. This entity will, according to LSU, take control of hospital management, continue lease payments to the state, pay hospital financial obligations and receive all sources of hospital revenues.

On October 28, 2015, the Department of Health and Hospitals (DHH) received court authorization to enter into an escrow agreement with BRF whereby DHH will place \$52 million into an escrow account, under court supervision, from which to disperse Medicaid funding to BRF for the remainder of the current fiscal year. The state has already dispersed approximately \$70 million to BRF in the current year. DHH requested authority to protect the funding due to the uncertainty regarding the hospital's future managing entity. Under the agreement, the bank will distribute approximately \$10.2 million per month to BRF until or unless a court order allows for a change of provider.

The Legislative Fiscal Office is awaiting clarification from LSU regarding the following identified, but not exhaustive, potential issues:

- Implications regarding lease payments and any potential state revenue impacts. (LSU indicates that it believes the interim corporation will operate and make lease payments parallel to the dissolving agreement.)
- What is the selection process for board members of ANHL?
- Responsibility for legal fees and other financial impacts of termination will presumably fall to the LSU system.
- Financial implications of identifying and establishing a new partner. (What are the impacts regarding DHH payments to the new partnership? Will the new partnership agreement be materially the same as, or different than, the previous one for the interim provider, ANHL, and/or for the to-be-identified private partner? Will the level and type of services be maintained under the interim provider?)
- Implications and impacts to LSU HSC-S in terms of physician services, support services and other agreements, as well as the medical school's ability to continue generating and collecting revenues in a timely manner (see discussion of LSU HSC-S issues below)

LSU Health Science Center Shreveport Structural Operating Deficit and Accreditation Impacts

LSU HSC-S had a structural operating deficit for FY 15, which continues to be an issue for FY 16. This structural operating deficit also has serious implications for the accreditation of the medical school, which is currently under review by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC).

FY 15 and FY 16 Structural Operating Deficit

In an October 2014 Focus on the Fisc article, the LFO recognized that LSU HSC-S and BRF Hospital Holdings (BRFHH) had not established a viable financial working relationship whereby BRFHH would pay the full monthly amounts invoiced by LSU HSC-S for contracted services in a timely manner on a long-term basis.

A January 2015, review of the medical school's financial documents indicated that LSU HSC-S had a structural operating deficit with a projected shortfall of \$17.2 M, which when combined with unfunded legacy costs, would likely exhaust LSU HSC-S's available unrestricted fund balance by as early as the end of FY 17, but not later than FY 18. The most recent review of FY 15 financial data indicates that the actual shortfall was \$49.8 M, which was funded out of the unrestricted fund balance. Furthermore, despite additional SGF resources (\$19.8 M for legacy costs and \$31 M for operating expenses), LSU HSC-S is projecting a \$20 M shortfall for FY 16. It is unknown at this time whether the result of the litigation discussed above will negatively impact the school's continued ability to meet self-generated revenue projections. Failure to do so will require further draw down of its unrestricted fund balance, which currently stands at \$48.6 M.

In testimony during the 2015 Legislative Session, LSU HSC-S provided information on their proposed budget stabilization plan, which included expense reductions of \$10.6 M and a plan to increase revenues

through physician practices and contract diversification. However, the operational changes anticipated for July 1 have not been implemented. Furthermore, new agreements with other hospitals have been challenged by BRF. Recently, the court declined BRF's request for an injunction to stop these agreements, allowing LSU to proceed. While this should assist in generating additional revenues, it will not be sufficient to fully address the projected shortfall.

Accreditation Impacts

SACSCOC is the regional body for the accreditation of degree-granting higher education institutions in the Southern states. Accreditation by the Commission signifies that the institution meets SACSCOC Comprehensive Standards and the Core Requirements including:

- Core Requirement 2.11.1: The institution has a sound financial base and demonstrated financial stability to support the mission of the institution and the scope of its programs and services.
- Comprehensive Standard 3.10: The institution's recent financial history demonstrates financial stability.

Additionally, the U.S. Secretary of Education recognizes accreditation by SACSCOC in establishing the eligibility of higher education institutions to participate in programs authorized under Title IV of the Higher Education Act and other federal programs.

SACSCOC reaffirms a school's accreditation every ten years and actually reaffirmed LSU HSC-S in December 2014. However, the Reaffirmation Committee determined a reduction of net assets and cash in FY 13 similar to those occurring in FY 11 and FY 12, would change the financial situation of the institution significantly. As such, SACSCOC requested that LSU HSC-S submit a monitoring report by September 8, 2015 to provide additional data addressing its financial stability. However, audit reports for FY 13 and FY 14 submitted as part of the monitoring report reflect continued reductions in net assets and cash for those fiscal years; as does the unaudited financial report for FY 15.

Moreover, while there is no explicit formula, Southern Association of Colleges and Schools (SACS) standards require a certain level of reserves to meet obligations to students to complete their program of study (teach out agreements) in the event of a substantive change to the institution's educational program or site. LSU estimates that reserves of approximately \$50 to \$55 M are required in order to meet SACS guidelines, which is more than the current available fund balance of \$48.6 M.

SACS has not indicated what it will do if it determines that LSU HSC-S has not met the standard for financial stability. According to policy statements from the organization, the SACSCOC Board of Trustees may request submission of monitoring reports until compliance is demonstrated for a maximum two-year period.

When an institution fails to comply within the monitoring period, the Commission may impose sanctions. A warning is usually levied in the earlier stages of institutional review and often precedes probation. Probation is usually invoked as the last step before an institution is removed from membership. However, these steps may not necessarily be followed in this particular order. The maximum term for each sanction is two years.

If the Commission determines that an institution's progress is insufficient during the two-year monitoring period but not significant enough to impose a sanction, the Commission will advise the institution that if progress or compliance is insufficient at the time of its next formal review by the SACSCOC Board of Trustees, the institution could be placed on sanction or removed from membership.

GENERAL GOVERNMENT

Administration of Family Medical Leave (FMLA)

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In August 2015, ComPsych Corporation began to provide Federal Medical Leave Act (FMLA) administrative services (third-party administrator, TPA) for 9 select state agencies. The 9 state agencies include: Children & Family Services, Health & Hospitals, Division of Administration (DOA), Corrections, Transportation & Development, Public Safety, Revenue, Economic Development and Juvenile Justice.

According to the contract, ComPsych will perform intake, determine FMLA eligibility, issue required notices, provide FMLA status updates to employee and management, request clarifications, authenticate certifications, manage second/third opinions and assist in the coordination of the release/return to work process. According to DOA, due to the inconsistent application of FMLA standards across state agencies, the TPA contractor will be consistent in its application of FMLA policies, provide appropriate scrutiny of FMLA requests and automate the workflow.

The Family Medical Leave Act (FMLA) is a federal policy that allows eligible employees to take up to 12-work weeks of unpaid leave during any 12-month period due to a serious health condition of the employee or employee's family. If the state employee has enough leave (sick, annual, comp), he or she can utilize this leave in lieu of using leave without pay during FMLA. According to the Alvarez & Marsal (A&M) Report, the Louisiana rate of FMLA usage for state employees is approximately 17% higher than the median industry FMLA usage. The report indicates that these 9 state agencies had an average of approximately 16.4% of its employees taking FMLA in FY 11, 20.1% in FY 12 and 18.4% in FY 13, which equates to lost average number of work days/100 employees of 384 days. The A&M Report cites the best practice benchmark should be 232 days (*page 258 of the A&M Report*).

The DOA, with the assistance of A&M, is projecting this ComPsych Corporation contract (FMLA Third-party Administrator-TPA) will save the state a net \$5 M in FY 16. However, this anticipated "savings" will likely not equate to actual budgetary savings to that degree, but could rather be classified as a **cost avoidance** with some cost savings for those state agencies that require the use of 24-hour employees. For example, the potential for cost savings relative to FMLA occurs for a state agency when the agency does not have to pay overtime and/or hire a temporary person while an individual is on FMLA. To the extent the FMLA request is denied or reduced, the state agency would avoid (cost avoidance) having to pay overtime or hiring a temporary individual while the original worker is tending to a family medical situation. This example is understandable for those state agencies that require the need for 24-hour coverage such as correctional officers, who typically work 12-hour shifts. Therefore, this TPA could result in some cost savings for those types of state agencies and only for these types of positions.

For those state agencies that do not require 24-hour coverage, this TPA will actually result in additional costs to the agency. For example, included within the 9 state agencies participating are the DOA, Revenue and Economic Development. The majority of these employees work traditional jobs. Therefore, to the extent any of these individuals take FMLA and their managers assign the workload to another existing employee, the only potential budgetary impact is if that existing employee has to work overtime and if that state agency actually pays the overtime earned. If the state agency chooses not to pay overtime or hire a temporary person, the only budgetary impact would be an increased agency cost of paying a portion of the ComPsych contract (see explanation below).

Based upon the provisions of the contract, the contract cost is \$1.45 per employee per month (or \$17.40 per employee per year) up to a maximum of \$497,222 annually. Thus, all participating state agencies are paying the costs based upon the number of employees at the agency. According to the Office of Human Capital (HCM), the monthly employee variable is based upon an end of month employee count. To the extent a state agency has no FMLA activity, that state agency would be paying for an administrative service without actually utilizing that service.

While the Legislative Fiscal Office believes this contract will likely result in less FMLA absences that could result in a decrease of the legal risk through a consistent application of leave and a decrease in the work responsibilities for human resources personnel, the \$5 M projected savings could be overestimated. The potential for some savings is greater at state agencies providing services at 24-hour institutions (like Corrections), while typical state jobs will likely be absorbed with existing personnel. The only known direct budgetary impact for those state agencies participating is the increase of expenditures associated with their portion of the fee to be paid to ComPsych Corporation, which as previously stated is \$1.45/employee/month.

According to HCM, ComPsych is managing approximately 24,000 employees from the 9 state agencies currently participating. Based upon the current maximum expenditure exposure included within the contract, the total number state employees ComPsych could manage is approximately 28,000. Therefore, there is some employee capacity remaining within the existing contract if additional state agencies were to

participate. However, to the extent the employer capacity were to grow in excess of 28,000 a contract amendment would likely be necessary.

Note: The recommendation to utilize a TPA for FMLA was included in the A&M Report (pages 257-263) released in June 2014. The assumptions used by the DOA and A&M to calculate the FY 16 \$5 M savings include:

- *ComPsych will reduce FMLA usage by 26% for all participating state agencies;*
- *A standard work day is 8 hours;*
- *The average hourly rate of a state employee is \$26/hour.*
-

Note: A performance measure in the contract provides that ComPsych must reduce total FMLA workdays within these 9 participating state agencies an aggregate of 18%.

Note: Contract term is from 5/17/2015 to 5/16/2016 with the for two additional one year periods.

Coastal Protection and Restoration Projects

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The Coastal Protection and Restoration Authority (CPRA) is involved in a number of large projects along the Louisiana coast focused on coastal restoration. These restoration projects include marsh creation, barrier island/headland restoration, diversions, hydrologic restoration, channel realignment, bank stabilization, ridge restoration, shoreline protection and oyster barrier reefs. Over the next three editions of *Focus on the Fisc*, the following restoration projects will be discussed: Caminada Headland Beach and Dune Restoration, Mississippi Long Distance Sediment Pipeline, and Calliou Lake Headlands. The projects were selected based on project cost, amount of area restored and how the project is funded.

Caminada Headland Beach and Dune Restoration

The Caminada Headland Beach and Dune Restoration Increment Two (Caminada Headland) is a barrier island/headland restoration project in Lafourche Parish, west of Grand Isle, LA. The Caminada Headland project will restore approximately 7 miles of beach and dune habitat. This will be accomplished by utilizing 5.4 million cubic yards of sandy material from Ship Shoal, which is an offshore borrow source located twenty-seven miles from the project. The material is dredged, transported by barge (Photo 1 on the right) to the project area and then pumped to the fill areas (Photo 2 on the right). As a result of this, a total of 489 acres of beach and dune habitat will be restored. The project began in February 2015 and is expected to be complete by October 2016.

Photo 1

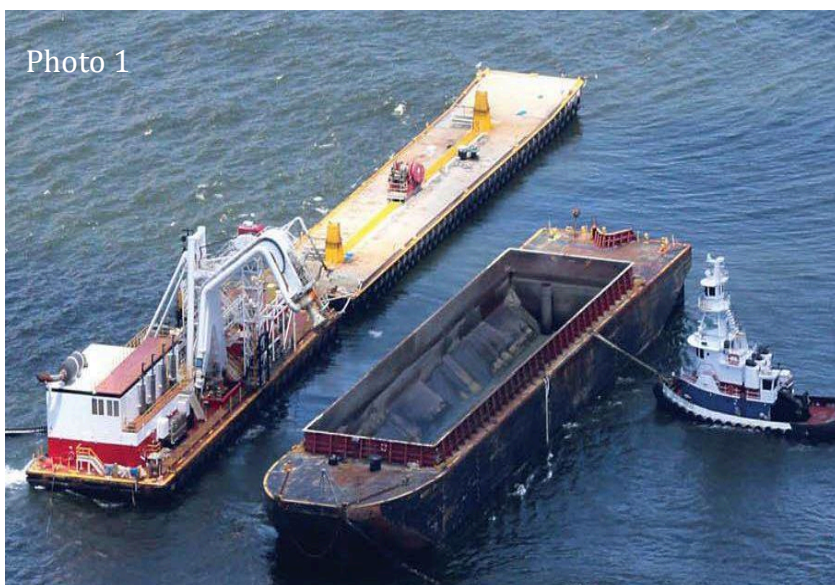


Photo 2



The cost of the barrier island/headland restoration project is budgeted at \$138.5 M. CPRA is receiving

funding from the Gulf Environmental Benefit Fund that was established in 2013 by the National Fish and Wildlife Foundation after the Deepwater Horizon oil spill. The fund is expected to receive \$2.54 B over a 5-year period as a result of a plea agreement for criminal charges against British Petroleum and Transocean. Louisiana will receive approximately \$1.72 B from the fund.

Upon completion of the project, both increments of the Caminada Headland Beach and Dune Restoration will have restored 13 miles of beach and 792 acres of beach and dune habitat. The first increment totaled approximately \$70 M and was funded with \$40 M in SGF surplus and \$30 M in a Coastal Impact Assistance Program (CIAP) grant that requires no state match. CIAP is a federal grant program that derives funding from federal offshore lease revenues to oil producing states for conservation, protection, or restoration of coastal areas.

Outstanding Fund Balance Transfers

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Since FY 11 there have been 5 funds bills (Act 378 of 2011, Act 597 of 2012, Act 420 of 2013, Act 646 of 2014, Act 121 of 2015) and three deficit reduction plans (FY 12, FY 15 #1, FY 15 #2) enacted that require the State Treasury to transfer fund proceeds from various statutorily dedicated funds in order to balance the state budget. To date, there is at least \$99 M of various prior year fund transfers that have not taken place and according to the State Treasury are still outstanding. Although the accounting books for these fiscal years have been closed, the State Treasury is of the legal opinion that these transfers are an outstanding obligation of the respective statutorily dedicated fund. Since the prior legislative acts are still effective and the fact that all of these funds are still not available to transfer, State Treasury is still seeking to transfer these outstanding proceeds. Tables 1, 2, 3 & 4 provide a summary of these outstanding fund transfers that should have been transferred into either the SGF, Medical Assistance Trust Fund (MATF), Overcollections Fund or the Lottery Proceeds Fund.

Table 1		
Total SGF Outstanding Resource Transfers To Date		
Authority	Resource	Amount
Act 597 of 2012	Academic Improvement Fund	\$86,911
BJ 11-25	Poverty Point Reservoir Development Fund	\$45,125
BJ 11-25	Audubon Golf Trail Development Fund	\$2,375
BJ 11-25	Utility & Carrier Inspection/Supervision Fund	\$186,289
Act 420 of 2013	LA Fire Marshal Fund	\$636,304
Act 420 of 2013	Energy Performance Contracting Fund	\$153,933
Act 420 of 2013	Right To Know	\$175,500
FY15 Deficit #1	Self Generated - LDR Office of Revenue	\$2,084,574
FY15 Deficit #1	Underwater Obstruction Removal	\$12,443
FY15 Deficit #1	Energy Performance Contracting Fund	\$12,000
FY15 Deficit #1	Seafood Promotion and Marketing Fund	\$26,450
FY15 Deficit #2	Agriculture and Forestry - Self Generated	\$205,711
FY15 Deficit #2	Office of Cultural Development - Self Generated	\$6,200
FY15 Deficit #2	Office of Management and Finance - Self Generated	\$120,000
FY15 Deficit #2	Office of Revenue - Self Generated	\$2,258,568
FY15 Deficit #2	Office of the Attorney General - Self Generated	\$335,349
FY15 Deficit #2	Office of the Secretary - Self Generated	\$17,500
FY15 Deficit #2	Office of the State Library of Louisiana - Self Generated	\$4,500
FY15 Deficit #2	Office of Tourism - Self Generated	\$1,157,534
FY15 Deficit #2	Pesticide Fund	\$51,085
FY15 Deficit #2	Boll Weevil Eradication Fund	\$61,007
FY15 Deficit #2	Petroleum & Petroleum Products Fund	\$255,000
FY15 Deficit #2	Sweet Potato Pests & Diseases Fund	\$15,755
FY15 Deficit #2	Horticulture & Quarantine Fund	\$51,978
FY15 Deficit #2	Utility & Carrier Inspection/Supervision Fund	\$12,750
FY15 Deficit #2	Louisiana Fund	\$1,100,306
Act 121 of 15	LA Fire Marshal Fund (effective upon signature)	\$2,500,000
Act 121 of 15*	Riverboat Gaming Enforcement Fund (effective 7/1/2015)	\$17,000,000
Act 121 of 15*	Riverboat Gaming Enforcement Fund	\$1,800,000
Act 121 of 15*	LA Fire Marshal Fund (effective 7/1/2015)	\$4,000,000
Act 121 of 15*	Environmental Trust Fund (effective 7/1/2015)	\$2,000,000
Act 121 of 15*	Hazardous Waste Site Cleanup Fund (effective 7/1/2015)	\$2,500,000
Act 121 of 15*	Insurance Verification System Fund (effective 7/1/2015)	\$3,000,000
	Total SGF transfers Outstanding to Date	\$41,875,147

*These transfers will likely not actually occur until the end of FY 16 due to language in Act 121 that indicates the appropriations from these funds must be met first.

Note: Upon approval by the Joint Legislative Committee on the Budget (JLCB) of statutorily dedicated fund budget authority reductions to resolve a mid-year deficit, R.S. 39:75(C)(2)(e) allows the state treasury to transfer the reduced authority amounts from the statutorily dedicated fund to the SGF to solve the deficit. After the statutorily dedicated budget authority reductions, financing is supposed to be available as a result of the expenditure reduction for transfer to the SGF to close the deficit. However, this is not always the case, which is why there are still pending resource transfers from 3 prior year mid-year deficit reduction plans (FY 12, FY 15 #1 & #2).

+Pursuant to the preamble in Act 15 of 2015, a significant component utilized to balance the FY 15 budget included approximately \$76 M of Governmental Efficiencies Management Support (GEMS) SGF "Savings." These SGF budget adjustments occurred on a monthly basis throughout FY 15 as reported by the Division of Administration (DOA) to JLCB. However, there is approximately \$14.7 M of the \$76 M preamble SGF savings that were not completely incorporated into FY 15. Of the \$14.7 M remaining, approximately \$6.5 M SGF was not reduced at all and the remaining \$8.2 M of SGF savings actually reduced the budget authority, but the dollars have not been transferred from the various state agencies similar to the outstanding fund transfers associated with the prior year deficit reduction plans.

Table 2**Total Medical Assistance Trust Fund Resource Transfers To Date**

Authority	Resource	Amount
Act 378 of 2011	Legislative Capitol Technology Enhancement Fund	\$6,757,502
Act 378 of 2011	Bossier Parish Truancy Fund	\$5,313
Act 378 of 2011	DPS Police Office Fund	\$8,129
Act 597 of 2012	Utility & Carrier Inspection & Supervision Fund	\$592,400
	Total MATF transfers Outstanding to Date	\$7,363,344

Table 3**Total Overcollections Fund Resource Transfers To Date**

Authority	Resource	Amount
Act 420 of 2013	LDR SGR	\$1,190,961
Act 420 of 2013	LA Fire Marshal Fund	\$702,295
Act 420 of 2013	Incentive Fund	\$3,962,652
Act 646 of 2014	DHH Facility Support Fund	\$238
Act 646 of 2014	2% Fire Insurance Fund	\$1,028,350
Act 646 of 2014	Motor Fuels Underground Storage Tank Fund	\$9,000,000
Act 646 of 2014+	Outstanding A&M Savings	\$8,200,101
Act 121 of 2015	Penalty & Interest Account	\$71,076
	Total Overcollections Fund transfers Outstanding to Date	\$24,155,673

Table 4**Total Lottery Proceeds Fund Resource Transfers To Date**

Authority	Resource	Amount
Act 121 of 2015	LA Lottery Corporation - Unrestricted Funds	\$5,900,000
Act 121 of 2015	LA Lottery Corporation - Unclaimed Prizes	\$20,000,000
	Total Lottery Proceeds Fund Transfers Outstanding to Date	\$25,900,000

respectively. Natural gas prices were also revised down to \$2.66/mcf for FY16, and \$3.05/mcf for FY17; 33¢/mcf and 21¢/mcf lower than previously forecast. These price downgrades are reflected in mineral revenue reductions of \$131 M and \$165 M, for FY 16 and FY 17, respectively.

The weakened energy sector is likely negatively affecting the overall economy as well, contributing to poorer performance in corporate taxes and general sales taxes. In addition, there are other issues with regard to these taxes that were discussed at the REC. Corporate tax weakness may be partly the result of a surge of tax returns with deductions and credit claims received prior to July 1, 2015 while these claims were still worth 100¢ on the dollar. Deductions and credits on returns received after July 1 are only worth less than 100¢ on the dollar, as per various measures enacted in the 2015 session. Many of these claims should have been handled during the FY 15 accrual period, but to the extent it has taken longer to handle the surge of returns the cost of these claims affects the FY 16 revenue flow. Successive amnesty programs (fiscal years 2010, 2013, and 2014) may have also likely suppressed base corporate collections as liabilities that would have normally settled in FY 15 and FY 16 were collected as amnesty receipts in earlier periods. With respect to the revenue measures enacted in the 2015 session, the first months expected to show any material effects are the net receipts of November and December, and then the spring tax filing months in the first half of 2016. Through October, the cumulative position of the net corporate tax is a negative \$211 M, implying that a nearly \$1 B swing in net collections will be required to meet the August 2015 forecast. This seems unlikely in light of the fact that the estimated corporate revenue gains from the measures enacted in the 2015 session are only slightly over \$400 million.

With regard to the general sales tax, the suspension of exemption to 1% of state tax levy on business purchases of utilities appears to be generating less revenue than expected. Natural gas prices are significantly lower than the historical period upon which the estimate of tax was based. To the extent natural gas pricing is a component of utilities pricing, less tax revenue generation would occur. However, the Revenue Department has reviewed tax returns and indicates that some of the taxable transactions are likely being reported on the wrong line of the return, consequently showing up as typical base collections rather than as business utilities collections. There are further problems with this levy, though. A material portion of receipts are being paid under protest, pursuant to a

legal challenge of the constitutionality of the tax, and the Department has identified a number of filers with direct-pay status that do not appear to be reporting and paying any of this tax. Ramp-up of the tax to full compliance may be taking longer than expected, and/or simple non-compliance may be occurring.

There are positive offsets to these downgrades, but they are not as helpful as might be expected. While the personal income tax is increased relative to the August forecast, this is more a reflection of the differences in forecast perspectives where the November adopted Legislative Fiscal Office forecast for personal income tax was already higher than the official forecast of August provided by the Division of Administration. Year-over-year personal income tax base growth is actually downgraded somewhat from previous recommendations, and only the addition of session action limiting the credit for taxes paid to other states is boosting the growth rate of the tax in FY 16.

Gaming tax projections were increased from riverboat gaming and the lottery. The riverboat increase reflects the completion of positive adjustments made since the Golden Nugget boat opened in Lake Charles in early December 2014. As performance data has accumulated, the additional state revenue outlook from the boat has been incrementally added to revenue forecasts, and as of this forecast is fully incorporated. Only very modest growth is expected on a year-over-year basis. The other positive in gaming is lottery transfers to the state. These transfers were mandated in the 2015 session and include a \$5.9 M transfer from reserves and a \$20 M transfer from unclaimed prizes. The Lottery Corporation typically makes some transfer from reserves to the state anyway, and both transfers are directed to the Lottery Proceeds Fund and have already been utilized in the FY 16 budget. In FY 17 lottery transfers are expected to return to normal based on fairly stable ticket sales. It should be noted that the transfer of unclaimed prizes will likely have a detrimental effect on game sales in the future as prize structures will eventually have to be reduced. This will result in smaller transfers to the state, and a greater general fund obligation to the Minimum Foundation Program where lottery proceeds are budgeted. This downgrade will be incorporated into a later forecast. It should also be noted that the projection for land-based casino receipts has been downgraded by nearly \$9 M. With the exception of a sharp spike up in July, gaming activity at this venue has distinctly stepped down after the City's indoor smoking ban went into effect in April.

Premium tax receipts were also upgraded, but this is largely the result of further expansion of the Bayou Health Medicaid Managed Care Program. These premiums are subject to tax but the resulting tax proceeds are fully dedicated to support of the Medicaid program, and do not result in additional general fund resources for other programs of the state budget.

Along with forecast reductions for FY 16 and FY 17, a reduction of \$189 million was also made for FY 18. For FY 19, the forecast made in November is essentially the same as the forecast made in August, based largely on the strength of projected gradually rising oil prices and a return to normal sales and income tax growth. A forecast for FY 20 has been appended onto the outlook, as well. Risks to this new forecast path are likely weighted to the downside. Oil and natural gas prices can go lower as evidenced by very recent price movements, the U.S. economy has yet to exhibit consistent robustness, and the world economy continues to struggle. While the revenue raising legislation enacted in the 2015 session dealt largely with longstanding provisions with considerable historical data available, a number of aspects of these measures add substantial uncertainty to the amounts of additional revenue expected. One of these measures is already being legally contested and taxpayer behavior may be impairing the anticipated collections from various of the measures.

Concerns About the Cash Position of the State General Fund

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There are two concerns about the cash position of the state general fund. One involves immediate liquidity issues as available borrowable reserves are running low and the other involves the FY 15 end of year cash deficit that has the potential to accumulate over time.

Spending the state general fund cash reserve in FY 15 of approximately \$300 M has exposed the state fisc to normal forecast error on the expenditure and revenue sides of the budget in a way it has not been exposed since the mid-80's. Forecast error is a normal and expected occurrence. It is impossible to be absolutely precise with so many unquantifiable elements inherent in the fiscal picture of the state. Under current budgetary procedures, borrowable funds along with the associated program obligations are now acting as a general fund cash reserve.

Interfund Borrowing Availability

State general fund appropriations are the only spending that can occur prior to the funds being deposited into the treasury. To achieve this, the general fund is allowed to borrow from certain fund balances with the mandate that all borrowed funds be repaid prior to Aug 15 (R.S. 49:308.4). However, this payback must occur only for one point in time and an immediate borrowed position can then be re-created in the same manner as a reseed of prior year seeds as addressed in the August 2014 issue of Focus on the Fisc (P 12-14).

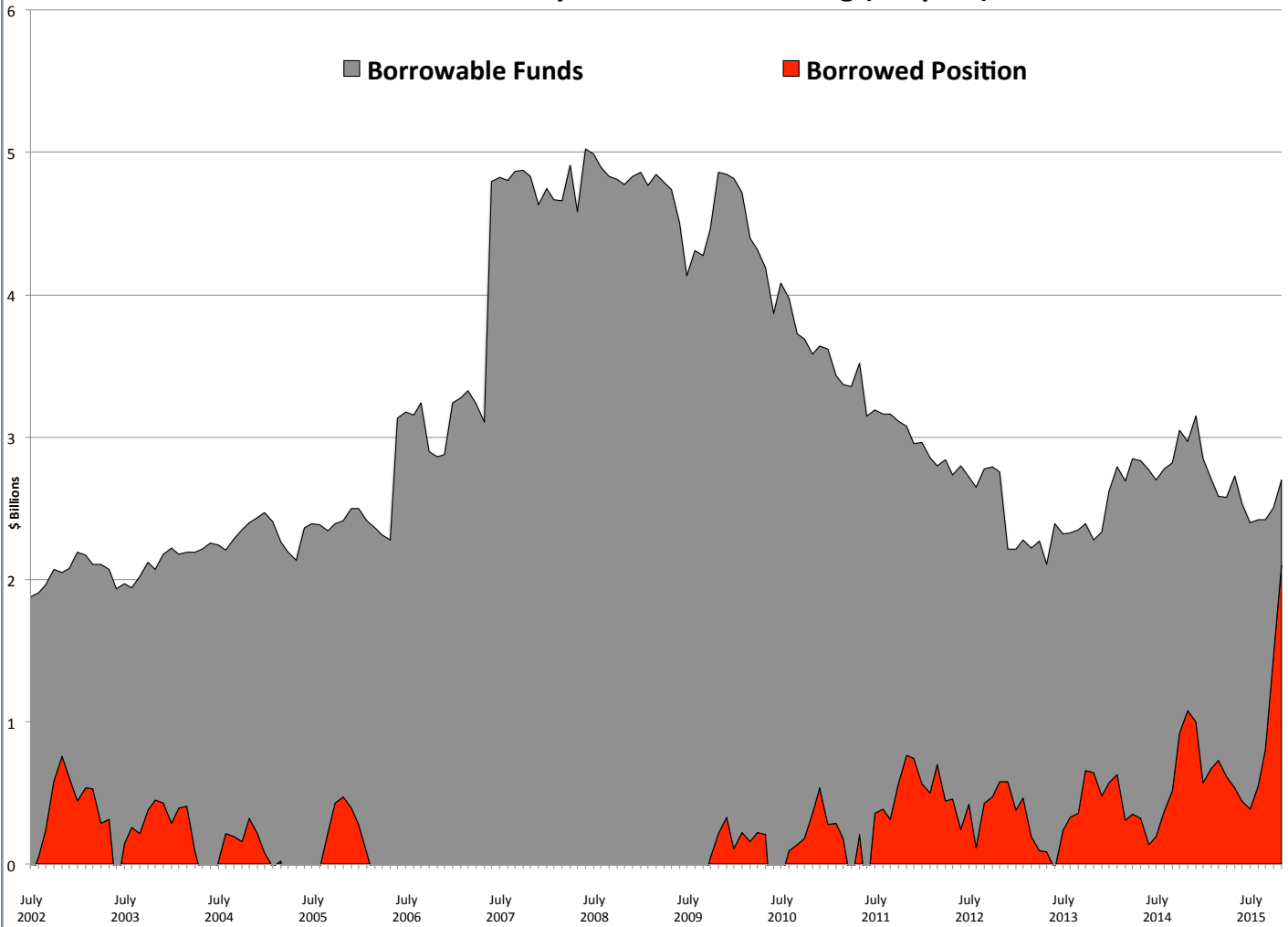
An agency with a general fund appropriation is allowed to spend according to its budget authority, not the actual collections. Until a revenue forecast is adjusted and SGF appropriation authority is altered to match the new revenue forecast, SGF spending is authorized to continue as if the old forecast is in place. For instance, the REC just lowered the current year SGF forecast by \$370 M but interfund borrowing until now has been based on the higher estimate.

Graph 1 on the next page provides perspective in how the borrowed position has continued to deepen over the years. The red area is the borrowed position while the gray area represents the available borrowable funds. The months in which the red area does not appear are months in which there is no interfund borrowing. The current borrowed position of nearly 80% of borrowable reserves is well in excess of any borrowed position since 2002.

In addition, as noted in Table 2 on the next page, the increased magnitude of interfund borrowing has caused the payback date to occur later in the fiscal year, recently delayed into the 45 day accrual period from July 1 to August 14, which indicates that the SGF had a negative balance on June 30.

There is concern regarding whether revenue will materialize to pay back that higher level of borrowing. This is the same reason that FY 15 finished with a negative SGF cash balance of \$60 M. With nearly half the year's interfund borrowing based on a revenue estimate that is higher than now anticipated with potential downside risk, it is possible that FY 16 could finish with an even larger SGF cash deficit.

Historical Monthly Interfund Borrowing (Graph 1)



The current cash position of the SGF appears to support this analysis. As of Friday, November 13, 2015, the SGF was in a borrowed position of \$2.1 B of the \$2.7 B in available borrowable funds. This means the state is within \$600 M of losing the ability to pay bills using these borrowable funds.

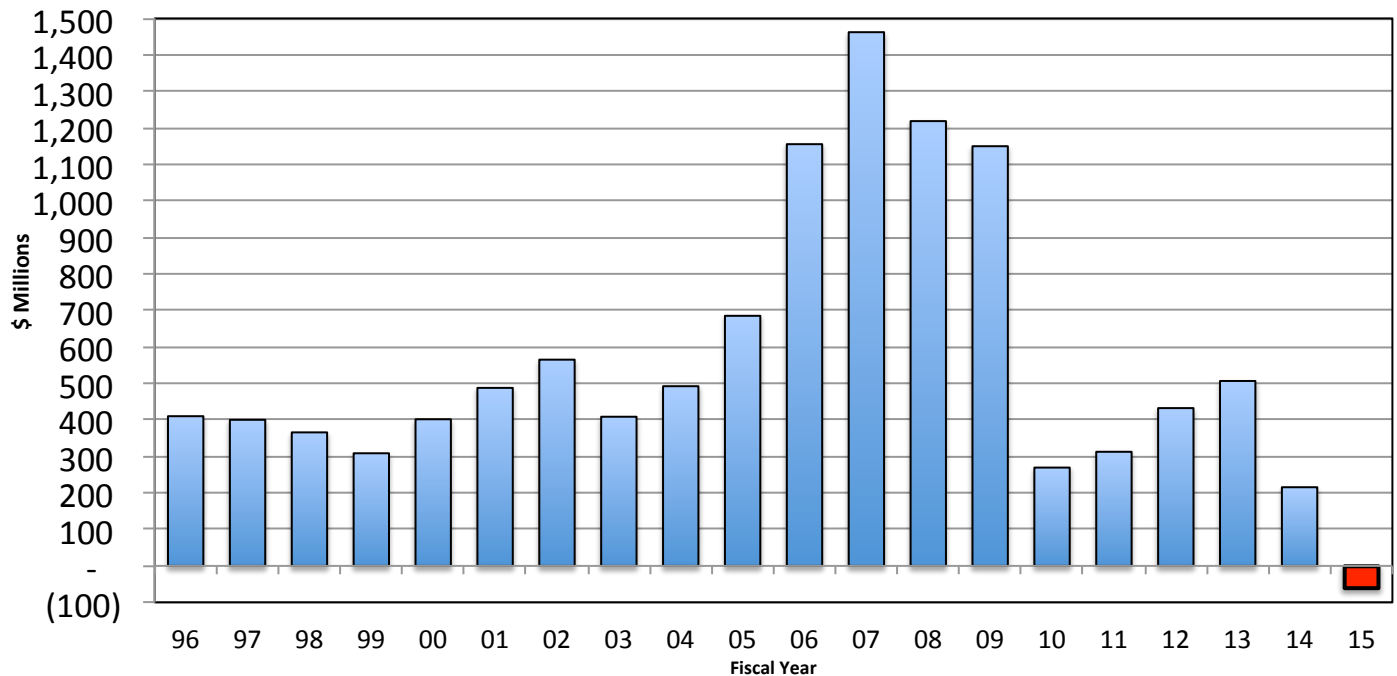
The investment picture shows similar indicators as the divestment necessary to provide the cash flow to support the borrowed position is nearing historical highs. Typically, at this time of year the state has about \$3 B in the General Fund Cash Management Investment Pool. As of 11/12/15, investments totaled \$1.99 B, which is the lowest amount of invested funds since 1997. However, today's dollars represent a smaller percentage of the total SGF budget than the same dollars in 1997. Since July 1, the state has divested over \$1 B in order to meet interfund borrowing demands, which is the highest figure on record. By comparison, divestment in the last two fiscal years was \$600 M and \$400M at this point in the fiscal year.

Table 2		
Fiscal Year	SGF Cash Balance on June 30	Date Repaid
2003	\$197,883,061	
2004	\$215,565,658	
2005	\$490,092,789	
2006	\$948,951,334	
2007	\$1,055,128,884	
2008	\$989,089,443	
2009	\$1,027,908,277	
2010	\$547,659,143	
2011	\$241,428,347	
2012	(\$247,465,754)	July 18
2013	\$35,306,954	
2014	(\$141,854,830)	July 1
2015	(\$446,521,890)	July 17

End of Year Cash Deficit of SGF

The FY 15 budget deficit totals \$117 M including \$60 M as a reported SGF cash deficit, which represents the net result of all annual activity and marks the first time in the current accounting system data history that the SGF has ended the year in a negative posture (Graph 2 on the next page). The Division of Administration closed the year-end books by carrying the SGF cash deficit forward into FY 16. From a budget perspective, what this ultimately means is that borrowable funds were reduced by \$60 M in FY 15 and will only be repaid when the FY 15 budget deficit is eliminated by the end of FY 16.

Ending Balance of the State General Fund (Graph 2)



The final figures for FY 15 have illustrated the risk of carrying no SGF cash reserve. Had the SGF cash reserve of approximately \$300 M been in place (or even the \$178M that was not used to cover the FY 14 deficit), the reserve would have absorbed the \$117 M FY 17 SGF deficit, and state government would still have some cash reserve position remaining. However, when the SGF crossed the fiscal year in debt, revenue from the early months of FY 16 were effectively used to finance the deficit of FY 15 leaving an immediate shortfall of \$60 M in FY 16. This shortfall is in addition to the revenue downgrades identified by the REC on November 16, 2015 and will be rolled into the end of year calculation of the SGF position. Should \$60 M in unforeseen revenue materialize and is left unspent, this deficit could be eliminated. However, if the revenue picture continues to deteriorate, it is expected that the SGF ending cash position will finish with an even larger deficit at the end of FY 16, adding to the \$60 M shortfall. By this process, the entire \$2.7 B borrowable pool is available as a general fund cash reserve allowing any deficits to roll into the next fiscal year to be corrected by the end of the year. In this manner, the prior year SGF cash deficit becomes a perpetual addition to the normal borrowed position of the SGF at the beginning of the fiscal

Table 3

ID	Fund	Contribution to Borrowable Reserves (June 30, 2015)	Percent of Total Borrowable Reserves	ID	Fund	Contribution to Borrowable Reserves (October 31, 2015)	Percent of Total Borrowable Reserves
E16	La. Education Savings & Tuition	510,522,497	20.1%	E16	La. Education Savings & Tuition	516,835,656	19.1%
077	Capital Outlay Escrow Fund - MOF *	353,596,376	14.0%	Q03	Clean Water State Revolving Fund	329,922,884	12.2%
Q03	Clean Water State Revolving Fund	335,070,128	13.2%	E18	Higher Education Initiatives Fund	253,846,160	9.4%
N10	Natural Gas Restoration Trust Fund	251,847,893	9.9%	N10	Natural Gas Restoration Trust Fund	247,706,720	9.2%
G03	Video Draw Poker	126,263,972	5.0%	077	Capital Outlay Escrow Fund - MOF *	167,973,513	6.2%
HW9	State Highway Improvement Fund*	117,640,133	4.6%	HW9	State Highway Improvement Fund*	116,636,840	4.3%
H22	Drinking Water Revolving Loan	95,329,249	3.8%	H22	Drinking Water Revolving Loan	96,675,342	3.6%
Q05	Motor Fuels Underground Tank	87,397,607	3.4%	Q05	Motor Fuels Underground Tank	85,893,596	3.2%
ST4	Unclaimed Property Leverage Fund*	71,768,606	2.8%	ST4	Unclaimed Property Leverage Fund*	65,110,257	2.4%
RK2	Rockefeller Trust & Protection	59,227,142	2.3%	RK2	Rockefeller Trust & Protection	59,801,894	2.2%
V25	Overcollection Fund	47,844,955	1.9%	V25	Overcollection Fund	52,557,307	1.9%
LB1	Workmans Com Second Injury Fund	44,185,976	1.7%	G03	Video Draw Poker	46,911,775	1.7%
EDR	LED Rapid Response Fund	31,142,598	1.2%	EDR	Rapid Response Fund	36,328,084	1.3%
RK1	Rockefeller Fund	24,454,377	1.0%	Q02	Environmental Trust	27,810,965	1.0%
G09	Pari Mutual Live Racing Gaming Control	23,344,195	0.9%	RK1	Rockefeller Fund	24,577,744	0.9%
E17	Savings Enhancement Fund	17,118,517	0.7%	LB1	Workmans Com Second Injury Fund	21,608,519	0.8%
H33	Community Hospital Stabilization Fund	12,724,067	0.5%	E17	Savings Enhancement Fund	18,446,927	0.7%
DS1	State Highway Fund #2	11,771,407	0.5%	G10	Support Education In La. First Fund	16,182,138	0.6%
HWE	Crescent City Connection Transition Fund	11,629,117	0.5%	H39	Tobacco Tax Medicaid Match Fund	13,534,730	0.5%
H20	Health Trust Fund	11,136,548	0.4%	LB4	Worker's Compensation Administration Fund	12,934,085	0.5%
TOTAL OF LISTED FUNDS		2,244,015,362	89%	TOTAL OF LISTED FUNDS		2,211,295,137	82%
All Other Funds		\$290,461,725	11%	All Other Funds		\$490,741,834	18%
Borrowable Reserves (June 30, 2015)		\$2,534,477,087	100%	Borrowable Reserves (October 31, 2015)		\$2,702,036,971	100%

* Does not include bond proceeds

year with the expectation that it will be repaid by the end of the fiscal year. Timing issues deserve additional scrutiny since this process implies that this amount of borrowable funds will not need to be available for use supporting their own program obligations until the end of the next fiscal year.

With borrowable funds at risk of absorbing an end of year SGF cash deficit, it is important to understand which funds are providing the bulk of the borrowable pool. Table 3 on the previous page is a list of the 25 largest funds contributing 80%-90% of the available borrowable reserves at the end of FY 15 and at the end of October 2015.

If continued borrowing without the ability or expectation to repay continues to erode the borrowable base, it is not clear which borrowable fund(s) will not be repaid. The statute mandates repayment but does not stipulate what should happen in the event the repayment fails. At this time, the SGF cash deficit has been accommodated as a reduction of the bottom line borrowable pool. If this accommodation is allowed to be permanent, it appears that the state will have built in permanent deficit spending.

GENERAL GOVERNMENT

OTS: Multiple Award Process, Staff Augmentation Contracts

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The Office of Technology Services (OTS) is in the process of promulgating a new administrative rule (statutory authority R.S. 39:199) that will allow procedures for awarding multiple contracts from a single solicitation (tier 1) and allows a secondary process for sourcing services at the task level across those contracts (tier 2). The OTS is projecting this new process to result in an indeterminable decrease in state governmental expenditures. By issuing awards to multiple vendors who each offer a catalog of services at various price points, the state will be able to choose the best vendor for a particular project based on an individual vendor's merits both in price and expertise in another competitive environment.

The proposed process will consist of two distinct competitive tiers. Tier 1 competition will contain a Request for Proposal (RFP) for an IT service (staff augmentation) that would result in multiple awards to different vendors. These multiple awards for the same IT service will contain terms and conditions for delivery of goods and services not to exceed a price ceiling (maximum) for these services. Once a vendor has been awarded in tier 1, there is no guarantee that vendor's staff augmentation services will be utilized without the completion of tier 2 competition. According to OTS, tier 2 competition will be a point-in-time sourcing for commodities and/or services across existing contracts established in Tier 1 not to exceed the price ceiling likely contained in the contract with OTS. For example, if a vendor is one of two awardees to provide applications development services for OTS (tier 1), then those two awardees for applications development will compete again in tier 2 to provide these services upon request of OTS. After the awardees submit their responses, OTS will perform a best value determination from their responses and issue a task order against the contract for the tier 2 winner. According to the proposed rule, a best value determine is one that considers the following: pricing, probable life of product selected, technical qualifications, delivery terms, warranty, maintenance availability, administrative costs, capability of a product within the user's environment, user's familiarity with the item or service and qualifications and experience of proposed staff.

To the extent an OTS requested project cannot be completed internally either due to staff constraints or workload capacity, this multiple award process may give OTS the ability to quickly respond to work order requests of its clients (state agencies). The staff augmentation services that will likely be awarded in tier 1 RFPs include: applications development, end user support, data center support, program support services, records and information management, information security and network support services.

According to OTS, the utilization of these staff augmentation contracts will be based on customer demand (agency demand). OTS contends that preference will be given for utilizing internal resources and that the demand for these services will be limited by state funding. OTS estimates approximately 5% or less of the workload would be completed by these augmentation contracts in current year and the subsequent fiscal year.

Note: The Procurement Support Team (PST) will still have oversight over the tier 1 staff augmentation contracts awarded to multiple vendors.

Costs to Fund State Retirement Systems

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For FY 17 the state is projected to make employer contribution payments in the amount of \$1,947,524,018, which is \$33.4 M less than the FY 16 payment, to the Louisiana State Employees' Retirement System (LASERS), Teachers' Retirement System of Louisiana (TRSL), Louisiana School Employees' Retirement System (LSERS) and the Louisiana State Police Retirement System (STPOL). The employer contribution (ER) is a combination of the normal cost and the unfunded accrued liability (UAL) payment. The FY 17 projected total normal cost payment is \$285,535,842 and the total UAL payment is \$1,661,988,176.

To determine the amount paid by each reporting agency to the retirement systems, the contribution rate is based on projected payroll for the next year. The FY 17 projected payroll for LASERS, TRSL, LSERS and STPOL is \$6,304,561,629 as seen in Table 4.

Table 4			
System	ER Contribution	Payroll	Contribution Rate
LASERS	\$689,209,392	\$1,923,962,135	35.8%
TRSL*	\$1,142,698,314	\$4,016,926,538	25.4%
LSERS	\$80,795,148	\$295,680,223	27.3%
STPOL	\$34,821,164	\$67,992,733	51.2%
Total	\$1,947,524,018	\$6,304,561,629	28.7%**

*TRSL multiplies the payroll amount by 1.14232 to account for ORP, since ORP members do not pay a normal cost.
 **Weighted average

Normal Cost

The normal cost is the cost of funding benefits that all active employees will earn for the year. The normal cost expense is paid by employees and the employer. The employee contribution (EE) varies between systems and within the plans of each system. The aggregate employee normal cost percentage for LASERS is 8.0%, with contribution rate percentages ranging from 7.5% to 13.0%. TRSL's aggregate normal cost rate is 8.0% with contribution rates ranging from 5.0% to 9.1%. The aggregate normal cost for LSERS is 7.5% with contribution rates ranging from 7.5% to 8.0%. Finally, STPOL has an aggregate normal cost rate of 9.0% with rates ranging from 9.0% to 9.5%. The employee contribution rates plus the employer normal cost contribution rates fund the cost of the accruing benefit for the year. Each system's total normal cost as a percentage of payroll is noted in Table 5.

Table 5			
System	EE Rate*	ER Rate	Total NC Rate
LASERS	8.0%	4.0%	12.0%
TRSL	8.0%	4.2%	12.2%
LSERS	7.5%	9.7%	17.2%
STPOL	9.0%	18.0%	27.0%

*Aggregate contribution rate is used.

The total projected FY 17 normal cost (NC) of the employer contribution for the four systems is \$285,535,842, which is \$14.2 M more than FY 16. This amount is determined by calculating the employer contribution rate with the total payroll. Table 6 displays the amounts the state will pay to fund the accruing benefit for the year.

Table 6		
System	NC Rate	NC Amount
LASERS	4.0%	\$76,924,675
TRSL	4.2%	\$167,630,952
LSERS	9.7%	\$28,740,912
STPOL	18.0%	\$12,239,303
Total	4.5%*	\$285,535,842

*Weighted average NC Rate

As a result of Act 571 of 2014, the actuarial cost method for LASERS and TRSL changed from Projected Unit Credit (PUC) to Entry Age Normal (EAN). PUC is a method that funds the present value of the benefit as it accrues and does not spread the cost. For employees that are early in their career the cost is lower, but at the end of an employee's career the cost is higher. EAN creates level contributions throughout the career. While it may cost more at the beginning of a career to pay an employee's accruing benefit, there is not a spike in later years and it remains the same.

UAL Payment

The second part of the contribution rate is the payment to the UAL. This percentage of payroll to pay the UAL is shared by all plans within a system. Since the 1987 constitutional amendment was passed, the systems must receive an actuarially required contribution (ARC) and within the contribution is the portion to pay the normal cost of the benefit and the amortization schedule of the UAL. The total projected FY 17 UAL payment for LASERS, TRSL, LSERS and STPOL is \$1,661,988,176, or 24.1% of payroll. The FY 17 UAL payment is \$47.6 M less than the FY 16 UAL payment. Table 7 displays the shared UAL rate of each system and the UAL payment for each system. The UAL is made up of the initial UAL (IUAL), investment gains/losses, actuarial gains/losses, additional benefits promised, and costs of living adjustments (COLAs).

The IUAL contains all debts owed by the systems from the creation of each system up to June 30, 1988. The initial payment schedule was set to make payments to the UAL that were less than the interest on the UAL balance. This payment schedule was altered by the legislature in 1992 and 2004 and resulted in reduced payments, which allowed the debt to grow and led to greater payments the end of the 40-year schedule. The amortization schedule was changed again in 2009 to lower the remaining UAL payments. As a result of Act 399 of 2014, the amount of investment gains transferred to the Experience Account, the account used to fund COLAs for retirees, will be reduced and more of the investment gains will be used for payment towards the existing UAL. Each system has a different gain sharing calculation that funds the system's Experience Account if the system meets the assumed rate of return. Act 399 applies thresholds for how much can be deposited into the Experience Account based on a system's funded ratio. Since the enactment of Act 399, LASERS and TRSL are both projected to pay off the IUAL by 2028 instead of the constitutionally required deadline of 2029.

Table 7		
System	UAL Rate	UAL Payment
LASERS*	31.8%	\$612,284,717
TRSL*	21.2%	\$975,067,362
LSERS	17.6%	\$52,054,236
STPOL	33.2%	\$22,581,861
Total	24.1%	\$1,661,988,176
*Shared UAL rate		

Regardless of plans offered or creation of a new benefit structure, the shared UAL payments are still factored in as a part of the contribution rate. This most notably occurred upon the enactment of Act 483 of 2012 (Cash Balance Plan). Both LASERS and TRSL had much lower employer normal cost rates for the Cash Balance Plan compared to the other system plans. However, the shared UAL payment was also factored in to the total employer contribution rate. Such action demonstrates that the payment towards the debt of all systems will continue to be paid by the state. The UAL payments by the state will continue to be made until the debt is fully liquidated notwithstanding incremental or structural benefit changes.

Comparative Social Security Scenario

The employer portion of the normal cost to fund LASERS and TRSL benefits is relatively low when compared to social security. The employer contribution of social security is 6.2% compared to LASERS and TRSL employer contribution normal costs of 4.0% and 4.2% respectively as noted in Table. As stated earlier the total normal costs for LASERS, TRSL, LSERS and STPOL is \$285,535,842. By comparison, the cost of Social Security applied to the projected payroll of the systems would be \$390,882,821, a difference of \$105,346,979 (\$285,535,842 LASERS, TRSL, LSERS & STPOL - \$390,882,821 Social Security). For illustrative purposes, Table 9 below displays the projected FY 17 state retirement costs compared to the costs associated with Social Security participation. The FY 17 cost to the state would potentially be \$105 M more as noted below.

Table 8		
System	NC Rate	NC Amount
LASERS	4.0%	\$76,924,675
TRSL	4.2%	\$167,630,952
LSERS	9.7%	\$28,740,912
STPOL	18.0%	\$12,239,303
System Total	4.5%*	\$285,535,842
Social Security**	6.2%	\$390,882,821
Difference		\$105,346,979
*Weighted average NC Rate		
**Applied to LASERS, TRSL, LSERS & STPOL payroll		

Table 9						
State Retirement Benefit Costs vs. Social Security Benfit Costs for LA						
System	FY 17 NC Rate	FY 17 NC Amount	FY 17 UAL Rate	FY 17 UAL Amount	Total ER Rate	Total ER Amount
LASERS	4.0%	\$76,924,675	31.8%	\$612,284,717	35.8%	\$689,209,392
TRSL	4.2%	\$167,630,952	21.2%	\$975,067,362	25.4%	\$1,142,698,314
LSERS	9.7%	\$28,740,912	17.6%	\$52,054,236	27.3%	\$80,795,148
STPOL	18.0%	\$12,239,303	33.2%	\$22,581,861	51.2%	\$34,821,164
Total	4.5%	\$285,535,842	24.1%	\$1,661,988,176	28.7%	\$1,947,524,018
System	FY 17 SS Rate	FY 17 SS Amount	FY 17 UAL Rate	FY 17 UAL Amount	Total ER Rate	Total ER Amount
LASERS	6.2%	\$119,285,652	31.8%	\$612,284,717	38.0%	\$731,570,369
TRSL	6.2%	\$249,049,445	21.2%	\$975,067,362	27.4%	\$1,224,116,807
LSERS	6.2%	\$18,332,174	17.6%	\$52,054,236	23.8%	\$70,386,410
STPOL	6.2%	\$4,215,549	33.2%	\$22,581,861	39.4%	\$26,797,410
Total	6.2%	\$390,882,821	24.1%	\$1,661,988,176	30.3%	\$2,052,870,997
Difference	1.7%	\$105,346,979	0	0	1.7%	\$105,346,979

It should be noted that the table above is merely for illustrative purposes and any rates and amounts noted would be actuarially calculated to determine a more accurate number.

NOTE: The contribution rates have not been approved by the Public Retirement System Actuarial Committee (PRSAC) and have only been approved by the system's boards.

Unfunded Accrued Liability (UAL) Update

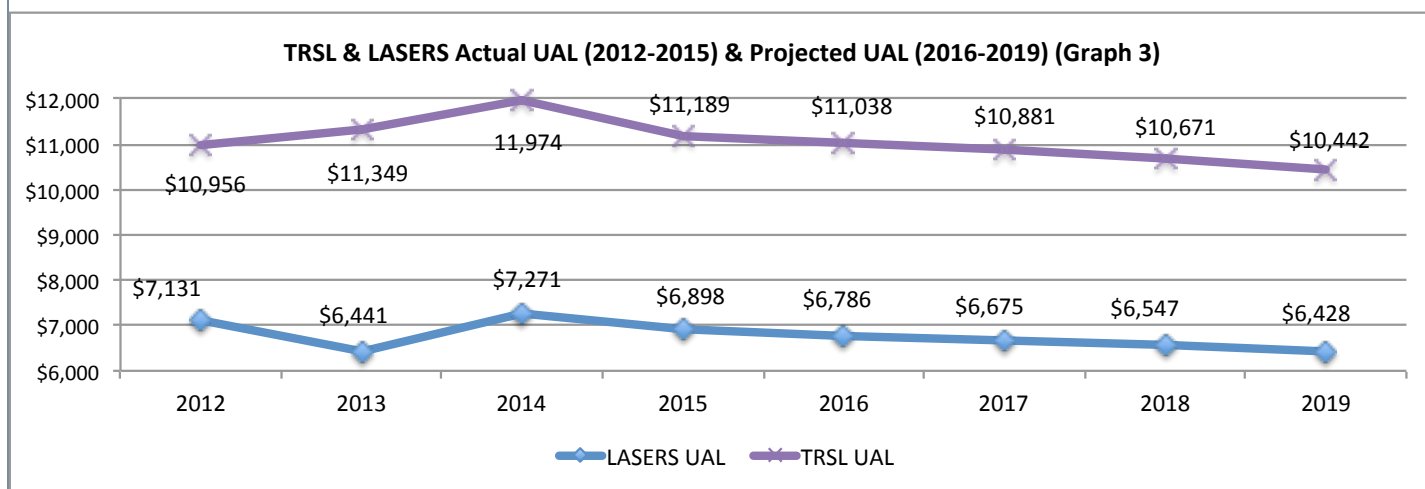
Matthew LaBruyere, Fiscal Analyst, labruyerem@legis.la.gov

Many years of insufficient contributions from the State resulted in a large initial UAL, or IUAL. However, in 1987 a constitutional amendment was passed that required all state retirement systems be funded on an actuarially sound basis, which ultimately requires the IUAL be eliminated by FY 2029. The UAL is to the difference between the total amount of benefit obligations minus the current actuarial value of the assets of the retirement systems. Any benefit obligations not met by actuarial value calculate to the UAL. In order to meet the constitutional mandate, the legislature established a 40-year amortization schedule with increasing annual payments beginning 7/1/1988, which were ultimately back-loaded. Of the 4 state retirement systems, LASERS and TRSL still have an IUAL balance not yet paid, which must be paid in full by 2029. The current statewide UAL is approximately \$19.1 B (\$6.9 B – LASERS; \$11.19 B – TRSL; \$0.28 B – State Police Retirement; and \$0.73 B – School Employees.

As of 6/30/2015, the UAL for each system is as follows in Table 10 and the funded percentages of the 4 state retirement systems as of 6/30/2015 are as follows in Table 11.

Table 10				Table 11			
System	2014 UAL	2015 UAL	Change	System	2014 Funded Ratio	2015 Funded Ratio	Change
TRSL	\$11,973,763,757	\$11,189,053,556	-\$784,710,201	TRSL	57.4%	60.9%	3.5%
LASERS	\$7,271,270,270	\$6,898,227,442	-\$373,042,828	LASERS	59.3%	62.1%	2.8%
LSERS	\$806,632,711	\$728,150,981	-\$78,481,730	LSERS	66.9%	70.7%	3.8%
STPOL	\$288,865,398	\$283,762,125	-\$5,103,273	STPOL	65.5%	68.8%	3.3%
Total	\$20,340,532,136	\$19,099,194,104	-\$1,241,338,032	Total	58.7%	62.0%	3.3%

Graph 3 below provides a historical look at the UAL for TRSL and LASERS in the previous four years (2012-2015) and the projected UAL for each system based on the current actuarial assumptions.



In 2013, the UAL of LASERS decreased by \$690 M which was a result of increasing the smoothing period from 4 to 5 years (\$170 M UAL decrease) and a decrease in active members by more than 8,000 mainly do to the privatization of state hospitals (\$430 M UAL decrease). The UAL for TRSL increased in 2013 by \$393 M. While TRSL had a net investment gain of \$588 M, the gain was offset by \$580 M associated with lowering the discount rate from 8.25% to 8.00% and a \$290 M UAL increase due to assumption changes from a five year experience study. Assumptions are a wide range of categories that can include member and retiree mortality, salary growth, disability, retirement and termination, and family composition.

In 2014 both system's UALs increased as a result of Act 571 of 2014 that changed the actuarial cost method for LASERS and TRSL from Projected Unit Credit (PUC) to Entry Age Normal (EAN). PUC is a method that funds the present value of the benefit as it accrues and does not spread the cost. For employees that are early in their career the cost is lower, but at the end of an employee's career, the cost is higher. EAN creates level contributions throughout the career. While it may cost more at the beginning of a career to pay an employee's accruing benefit, there is not a spike in later years and it remains the same. The change

in cost method resulted in a total actuarial loss of \$1.5 B for both systems (\$622 M LASERS + \$881 M TRSL). In addition, LASERS lowered the system rate of return from 8.00% to 7.75%, which along with a five year experience study loss increased the UAL by an additional \$725 M. TRSL also reduced the discount rate from 8.00% to 7.75% which increased the UAL by \$570 M. The total increase associated with discount rate changes, cost method changes and an experience study for both systems was \$2.8 B.

In 2015, both system's UALs decreased by a total \$1.16 B (LASERS \$373 M + TRSL \$785 M). Of the \$1.16 B decrease to the UAL, \$820 M was associated with investment gains. As a result of Act 399 of 2014, investment gains were subject to the cost sharing associated with the Experience Account. The experience account is the account that funds COLAs for retirees. This Act allowed for more investment gains to be applied to the UAL instead of depositing a portion of investment gains into the Experience Account.

Public Service Commission Lawsuit Continues as New Challenges Emerge

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In July 2010, the Public Service Commission (PSC) filed a Petition for Declaratory Judgment against the Legislature to challenge approximately \$8.5 M of Statutory Dedication funding being swept for SGF expenditures in FYs 09 & 10. The funding was swept from the Motor Carrier Regulation Fund, the Utility & Carrier Inspections/Supervision Fund, and the Telephonic Solicitation Relief Fund, which are the three primary sources of funding for the commission. The lawsuit requested the ruling to determine if the sweep is constitutional, claiming the Legislature cannot divert fees paid for a specific service to be used in filling gaps in the SGF. If the sweep is deemed unconstitutional, the \$8.5 M funding could be returned to PSC most likely from the SGF.

The initial District Court ruling found no grounds existed for the ratepayers, PSC, or any other party to contest the Legislature's actions. However, in April 2013 the First Circuit Court of Appeals overturned the ruling, claiming the Commission had valid grounds to challenge the sweeps and returned the case to the District Court. After the decision was reversed, three ratepayers sought to amend the lawsuit and join the Commission in claiming damages against the Legislature due to the fund sweep. Such a modification would alter the case from a declaratory hearing to a class action lawsuit because of the requested compensation for damages. The ratepayers claim that the fees paid were not intended to pay for other government programs, but for a specific purpose of maintaining public utilities and using the money for other projects negatively impacts them financially.

The ratepayers argue the lawsuit's current form will only decide if the Legislature can sweep the funds and does not guarantee a return of the collected fees to the ratepayers should the Commission's case succeed. While the Commission and Legislature are at odds over the sweep itself, both agree that ratepayers do not have a legitimate claim to recovering any funding because the fees collected were paid by the utility companies and motor carriers, not the ratepayers. Therefore, if any additional entity has a claim to be honored in a class action suit, it would be the carriers and utilities directly. The change proposed by the ratepayers was initially dismissed due to a technicality, but was resubmitted to the court after the error was corrected. The decision to certify the case as a class action lawsuit is expected to be rendered in mid-2016.

Bond Anticipation Notes

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The private placement of a Bond Anticipation Note (BAN) is being considered by the State Bond Commission to fund on-going capital outlay projects due to the diminishing balance of the Capital Outlay Escrow Fund. It is expected that the BAN will be issued in time for proceeds to be in place by the first of February 2016, which means that a solicitation for indicative pricing from prospective financial institutions would occur in December 2015. The Solicitation for Offers was issued on November 10, 2015.

A BAN is a short-term loan that will be repaid by the proceeds of the actual bond sale in the future (referred to as take-out bonds), usually within a year. BANs can be issued competitively, negotiated, or as a private placement issue and allow for a certain amount of flexibility in the timing and documentary requirements of a future General Obligation (GO) Bond sale. A BAN can include a call date after which the short-term loan can be repaid without penalty prior to the final maturity date using proceeds from the GO

Bond sale, though the cost of financing may be slightly higher. If BANs are issued by direct placement with a bank (private placement issue), the transaction does not require a disclosure document or a public credit rating. However, rating agencies are free to review the rating at any time regardless of whether the state is issuing debt in the public market or through a private placement. The rating agencies are monitoring the state closely.

The BAN would be budgeted in the same manner as the GO Bonds that will be sold to replace it with any interest payments along with any principal and interest payments of the anticipated GO Bonds incorporated into the non-appropriated debt service obligation of the state. Presumably, an amortization schedule that takes into account both the BAN and an estimate of the debt service on the subsequent take-out bond will be used in the calculation of the Net State Tax Supported Debt. Once the GO bond is issued, the estimated amortization schedule will be updated with the actual schedule.

When the state issues securities in the public markets, a disclosure document must be provided that describes, among other things, the financial situation of the state. Given the transition to a new Governor yet unknown and the potential for a special session early next year, it is likely to be very difficult to develop a disclosure document that can fully describe the state's developing financial situation. The private placement of a BAN would overcome this obstacle, and protect the state and investors from the potential emergence of significant financial developments in the middle of or just after the bond transaction. By delaying a disclosure document until the state's financial situation is in a firmer posture, the state will be able to enter the public bond market with appropriate disclosure. If the BAN is issued in January 2016, with a 12 month final maturity and a 6 month call date, it would be possible to sell GO bonds to pay back the BAN anytime between July 2016 and January 2017.

A BAN is a standard financing mechanism used as an interim financing tool by many local governments and direct placement of a state BAN is expected to be achievable at reasonable rates. With appropriate explanation, BANs are not expected to have negative connotations for the outlook of the state in the bond market. The Solicitation for Offers will allow respondents to present plans utilizing other instruments or structures beyond "plain vanilla BANs" that are used in the marketplace. In addition, respondents can present indicative pricing for BANs and/or other interim financing as part of a proposal to provide both interim financing and serve as the underwriter for the sale of the take-out bonds. This approach may yield all-in lower costs to the state. Should the option chosen include plans to issue the take-out GO Bond sale on a negotiated basis, the approval of the Joint Legislative Committee on the Budget would be required prior to the acceptance of the offer.

Bond Counsel is of the opinion that R.S. 39:1365(21)(a) enables the state to issue a BAN or other short term financing instrument without the approval of the Joint Legislative Committee on the Budget; an approval that is required for negotiated or private bond sales. The Solicitation for Offers allows respondents to present plans that may combine alternative scenarios utilizing other instruments or structures in the marketplace along with the underwriting of the GO Bond sale.

Coastal Protection and Restoration Projects

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This is the second part in a three-part series of reports on coastal restoration projects undertaken by the Coastal Restoration and Protection Authority (CPRA).

Calliou Lake Headlands

The Calliou Lake Headlands is a barrier island/headland restoration project in Terrebonne Parish, south of Cocodrie, LA (Photo 1 on the next page). The Calliou Island Headlands project will restore approximately 5 miles of the barrier island shoreline of Whiskey Island and marsh habitat on the bay side of the island. This will be accomplished by utilizing 10.4 million cubic yards of sandy material from Ship Shoal, which is an offshore borrow source located ten miles from the project. The material is dredged and then pumped directly to the fill areas. As a result of this, a total of 1,087 acres will be restored, including 917 acres of shoreline and 170 acres of marsh habitat (Photo 2 on the next page). The effective start date of the contract is December 1, 2015 and the project is expected to be complete by September 2017.

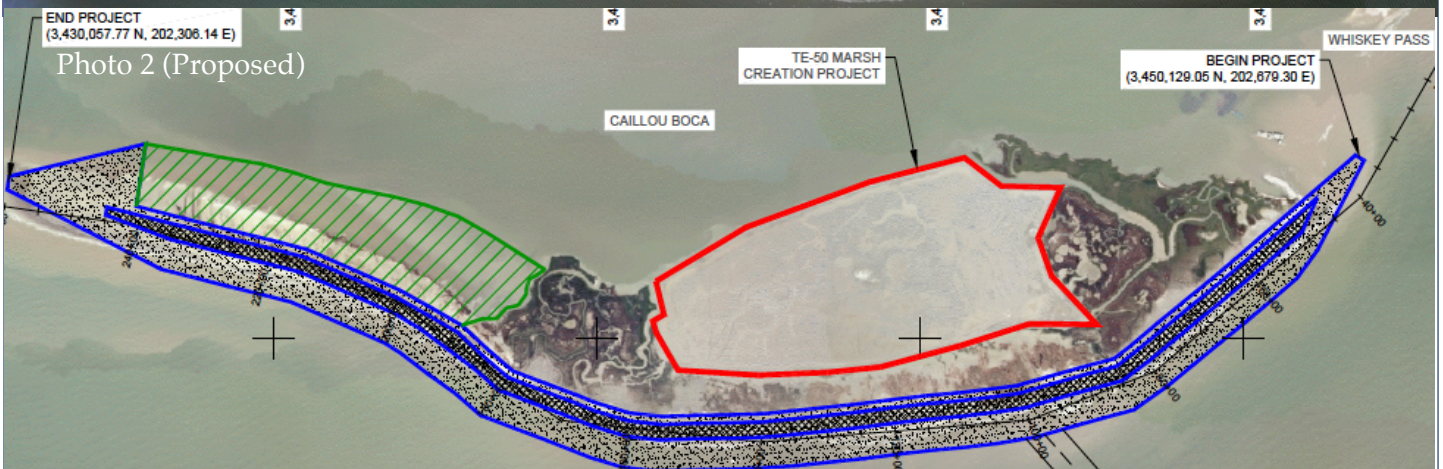
The cost of this barrier island/headland restoration project is budgeted at \$103.2 M. The project is funded through the Natural Resource Damage Assessment (NRDA) Early Restoration program. CPRA has access to approximately \$370 M as part of an early restoration settlement between federal and state trustees and BP. Under the early restoration settlement, BP agreed to pay a total of \$1.0 B to the 5 Gulf States for implementation of restoration projects. The Calliou Lake Headlands project is one of four outer coast restoration projects in the state that is part of NRDA Early Restoration Phase III. The four projects total \$318 M. The other early restoration projects in the state include marine fisheries enhancement, research & science center project (\$22 M), oyster cultch project (\$15 M), and Lake Hermitage Marsh Creation project (\$13.9 M).

Upon completion, a total of 1,406 acres on Whiskey Island will have been restored as part of this project and a CPRA project completed in 2010 (as noted in Photos 1 & 2). The project in 2010 created 319 acres of marsh, three 1 acre tidal ponds, 5,900 linear feet of tidal creeks and 13,000 linear feet of sand dunes. The cost of the project was \$26.8 M and was funded through the Coastal Wetlands Planning, Protection and Restoration Act (CWPPRA) program. CWPPRA is a federal program for restoration projects with a cost sharing of 15% state, 85% federal. Project submissions are evaluated and ranked on the basis of cost effectiveness, longevity, risk, supporting partnerships, public support, and conformity with CWPPRA goals.

Photo 1 (Before)



Photo 2 (Proposed)



employing various MOF adjustments through the use of unappropriated resources in the amount of \$282.3 M, delaying Medicaid payments in the amount of \$126.2 M into FY 17, \$28.2 M from the Rainy Day Fund and \$27.7 M of anticipated revenues from other various sources (FEMA Reimbursements, FY 15 Prior Year Deficit Plan Sweeps). The adopted plan is depicted in Table 1 and Chart 1 on the previous page.

As previously mentioned, the adopted plan contains approximately \$22.9 M in net reductions. Table 2 depicts the specific departments impacted by these reductions along with summaries of such reductions.

Table 2

Department	Total Net Cuts
01-EXEC	(\$1,134,836)
04-DOJ	(\$265,000)
04-DOI	(\$1,164)
05-LED	(\$108,947)
07-DOTD	(\$1,438,331)
08-DPS	(\$206,265)
09-DHH	(\$3,385,134)
10-DCFS	(\$384,674)
11-DNR	(\$1,751,573)
13-DEQ	(\$3,708,109)
14-WORK	(\$1,021,885)
16-WLF	(\$2,000,000)
19-DOE	(\$500,000)
20-OTHER	(\$7,003,425)
Total Net Reductions	(\$22,909,343)

07-276 DOTD Engineering and Operations (\$1,436,936) SGR (BA-7 #17): The SGR reductions will impact the DOTD Equipment Buyback Program within the Operations Program. Each year, DOTD sells heavy equipment back to manufacturers or distributors and utilizes the SGR proceeds to purchase new heavy equipment. The amount appropriated for the Buy Back Program in FY 16 is \$21 M, which was increased from \$19 M in FY 15. This adjustment will reduce the amount available to purchase heavy equipment through the Buy Back Program to approximately \$19.6 M.

09 Various Statewide Human Service Districts/Authorities – (\$1,854,420) total SGF (Executive Order/In-House BA-7s): The SGF reductions will impact nine of the ten Human Services Districts and Authorities statewide for a total savings of \$1.85 M SGF. The budget of the Acadiana Area Human Services District is not reduced at this time. The projected savings associated with each impacted district or authority is generated as per Executive Order BJ 2015-11:

Executive Branch – Expenditure and Hiring Freeze. The savings are related to the spending freeze impacting general operating expenses as well as salary savings generated by unfilled vacant positions. This adjustment does not eliminate any T.O. or non-T.O. positions.

09-330 Office of Behavioral Health: (\$600,000) SGF (BA-7 #26): The SGF reduction will reduce \$600,000 SGF from the Office of Behavioral Health utilizing savings generated as per Executive Order BJ 2015-11: Executive Branch – Expenditure and Hiring Freeze. The savings are related to the spending freeze impacting general operating expenses as well as salary savings generated by unfilled vacant positions. This adjustment does not eliminate any T.O. or non-T.O. positions.

16-Wildlife & Fisheries (\$2,000,000) (BA-7 #s 38-41): The adopted reductions will reduce acquisitions in the Office of the Secretary in the Enforcement program. This will eliminate the purchase of a BUI/MCC vehicle, suburban, 6 ATVs, and 2 trucks to be used by Enforcement. This will require the department to rely on older vehicles, which may require more maintenance. Reductions for the Office of Fisheries will reduce the acquisitions budget, postponing the purchase of research and monitoring equipment. The equipment currently being used will be relied upon for a longer time than initially anticipated or suggested. Reductions for Management and Finance will result in loss of Operating Services for temporary staff services related to the BP spill and IAT for ERP system change, Data Dial Tone, and Internet Service Upgrade for Field Offices. The temporary staff were used for cleanup purposes and to assist filing claims and documents with Postlethwaite & Netterville in the wake of the BP oil spill. Lastly, reductions for the Office of Wildlife will postpone the acquisition of property for the coming fiscal year. This provides budget authority for the department to acquire land it views as beneficial to the agency should the opportunity arise.

20-931 LED Special Projects (\$7,003,425) (BA-7 #43): The \$7 M reduction includes \$5.3 M in SGF and a net of \$1.7 M in statutory dedications, comprising \$1.2 M from the MegaProject Development Fund and a net of \$0.4 M from the Rapid Response Fund. The Rapid Response Fund authority will be cut by \$1.8 M then refilled with \$1.3 M in fund balance, which eliminates all fund balance. The reductions will be attributed to two projects: Chiquita and Shumacher, that will no longer require the magnitude of payments that were considered in the FY 16 budget. Neither project is being eliminated. Chiquita will no longer move its ripening facility to the port of New Orleans, which reduces the incentive payment requirement by \$4.3 M from \$5.6 M to \$1.3 M. The progress on the Shumacher project (\$0.8M) and Ameritas (\$0.4 M) will delay

those incentive payments (\$1.4 M) into the next fiscal year. The remaining \$1.3 M will be accomplished with a clawback to the Megafund of \$0.9 M and anticipated reduced payouts of unidentified projects of \$0.5M based on past experience.

13-DEQ (\$3,708,109): DEQ is reduced department-wide by \$3.7 M. The major reduction includes \$0.75 M in salaries and related benefits that is achieved through attrition. Other Charge and Professional Services are reduced by a total of \$1.6 M. This reduction includes contracts that will not be executed in this fiscal year, lower projected claims for Motor Fuels Underground Trust Fund and lower projected waste tire processor payments from the Waste Tire Management Fund. IAT expenditures are reduced by \$1.2 M through consolidations.

11-DNR (\$1,751,573) (BA-7 #s 28-31): As a result of the cuts, no new hires will be allowed and no vacancies that are created can be filled for the Office of Coastal Management, the Office of Mineral Resources, and the Office of Conservation. This could lead to longer wait times to process permits. The reductions for Mineral Resources means there will also be reductions in field travel, which can result in auditing delays. According to DNR estimates, the \$484,105 reduction in the Oilsite Restoration Fund could lower the number of orphaned wells that are plugged. It is difficult to predict how many orphaned wells will remain unplugged as site estimates are not known until they have been placed out to bid. The Fisherman's Gear Fund reduction will lower the number of claims that can be paid by the department in instances of equipment destruction by underwater obstacles. According to department estimates, this would remove approximately 3 claims from the fund. The reductions will also lower the amount of WAE hours worked by certain employees in the Office of the Secretary.

Agency Specific Summaries

Statewide

\$17.4 M FEMA Reimbursements: The Legislative Fiscal Office has requested additional information from the Governor's Office of Homeland Security (GOHSEP) relative to this potential new revenue source. According to information provided by the DOA, the FEMA reimbursement state match requirements have been reduced from 75/25 to 90/10, which is anticipated to result in an additional \$17.4 M. GOHSEP anticipates receiving these funds by June 30th.

\$10.3 M Prior Year FY 15 Deficit Reduction Plans: In December 2014 and February 2015, the Joint Legislative Committee on the Budget (JLCB) approved two different deficit reduction plans that involved the use of dedicated revenues to close the gap. However, not all approved funds were actually transferred into the SGF prior to the close of FY 15. Table 3 to the right is a depiction of the outstanding fund transfers from these resources the DOA is proposing to utilize to now close the FY 16 budget shortfall.

R.S. 39:75(C)(2)(e) allows that state treasury to transfer the mid-year fund reductions from the statutorily

dedicated fund to the SGF to solve a deficit. After the statutorily dedicated authority reductions, financing is supposed to be available as a result of the expenditure reduction for transfer to the SGF to close the deficit.

Agencies

Office of Coastal Protection and Restoration: BA-7 #3 reduces the Coastal Protection and Restoration Fund by \$6.5 M based on an available unobligated balance. For FY 16, appropriations out of the fund total \$129.7 M; \$87.6 M in HB 1 and \$42.1 M in HB 2

Table 3		
Authority	Source	Amount
FY15 Deficit #1	Self Generated - LDR Office of Revenue	\$2,084,574
FY15 Deficit #1	Underwater Obstruction Removal	\$12,443
FY15 Deficit #1	Energy Performance Contracting Fund	\$12,000
FY15 Deficit #1	Seafood Promotion and Marketing Fund	\$26,450
FY15 Deficit #2	Agriculture and Forestry - Self Generated	\$205,711
FY15 Deficit #2	Office of Cultural Development - Self Generated	\$6,200
FY15 Deficit #2	Office of Management and Finance - Self Generated	\$120,000
FY15 Deficit #2	Office of Revenue - Self Generated	\$2,258,568
FY15 Deficit #2	Office of the Attorney General - Self Generated	\$335,349
FY15 Deficit #2	Office of the Secretary - Self Generated	\$17,500
FY15 Deficit #2	Office of the State Library of Louisiana - Self Generated	\$4,500
FY15 Deficit #2	Office of Tourism - Self Generated	\$1,157,534
FY15 Deficit #2	Pesticide Fund	\$51,085
FY15 Deficit #2	Boll Weevil Eradication Fund	\$61,007
FY15 Deficit #2	Petroleum & Petroleum Products Fund	\$255,000
FY15 Deficit #2	Sweet Potato Pests & Diseases Fund	\$15,755
FY15 Deficit #2	Horticulture & Quarantine Fund	\$51,978
FY15 Deficit #2	Utility & Carrier Inspection/Supervision Fund	\$12,750
FY15 Deficit #2	Louisiana Fund	\$1,100,306
Act 121 of 15	LA Fire Marshal Fund	\$2,500,000
	TOTAL	\$10,288,710

for capital outlay projects. The \$6.5 M reduction of the appropriated fund amount is 5% of the combined appropriations.

According to CPRA, a reduction of \$6.5 M will not affect projects for FY 16. However, projects scheduled for future fiscal years may be affected. FY 16 budgeted expenditures include: \$45.8 M for grant programs from Coastal Impact Assistance Program (\$10.3 M), National Fish and Wildlife Foundation (\$28.5 M) and Attorney General oil spill expenses (\$7 M).

Attorney General: BA-7 # 7 provides funding adjustments for the AG (reducing the department by \$4,838,216 and increasing the department by \$4,573,216) for a net decrease of \$265,000. SGF is reduced by \$4 M and statutory dedicated funds are reduced by \$838,216. These reductions will be partially offset through available fund balances of \$573,216 and an unobligated Transocean settlement of \$4 M. The Transocean settlement money is associated with the Deepwater Horizon event in April 2010. The \$4 M from Transocean is part of a punitive damages settlement between Louisiana, Mississippi, Alabama, Florida and Texas. The settlement has been received by the State Treasury and is currently in the escrow account of the Consumer Enforcement Fund. The settlement dollars have no restrictions on expenditures.

Note: While the BA-7 adopted by the JLCB increases the AG by \$2,151,606, an additional in-house BA-7 (Executive Order) reduces SGF within the department by \$2,416,606 for a net reduction of \$265,000.

Medicaid: BA-7 #22 reduces Medical Vendor Payments by \$335.3 M in SGF, with a means of finance swap of approximately \$209.1 M to partially offset the SGF reduction. The source of revenues utilized to offset the SGF reduction includes various federal funds carried forward in the Medicaid program that were not appropriated in FY 16 and federal certified public expenditure (CPE) revenue (\$132.6 M), \$23 M in additional Amnesty Statutory Dedication revenues recognized by the REC on 11/16/15, and \$53.5 M in additional premium tax revenues not appropriated into the Medical Assistance Trust Fund for Medicaid in 2015. The net SGF reduction to Medicaid is \$126.2 M. Information provided to the Legislative Fiscal Office indicates the net reduction (\$126.2 M SGF, \$207.8 M Federal, \$334 M total payments) will be addressed by delaying payments to Bayou Health from FY 16 to FY 17. The illustrations below reflect the total SGF reduction in Medical Vendor Payments (MVP), and total means of finance adjustments associated with both an in house BA-7 and JLCB proposed action.

Total SGF Reduction

(\$251,422,176) In house BA-7 SGF reduction (Executive Order)
 (\$83,877,824) JLCB BA-7 SGF reduction
 (\$335,300,000) Total FY 16 SGF reduction (Deficit Elimination Plan)

MOF Adjustments

(\$335,300,000) State General Fund reduction allocated to MVP
 \$53,500,000 Statutory Dedication revenue appropriated (Managed Care premium tax)
 \$23,000,000 Statutory Dedication revenue appropriated (Amnesty revenues)
 \$132,571,887 Federal fund revenue appropriated (various carry forward revenues)
 (\$126,228,113) Balance of SGF cut (\$334 M total payments) – FY 16 payments paid in FY 17

Note: Approximately \$186.1 M in revenues proposed for use to address the FY 16 Medicaid shortfall are being reallocated for use in the Mid-Year Deficit Elimination Plan. As a result, the projected Medicaid shortfall in FY 16 (\$190 M state match, \$530 M total) will have to be addressed using either other revenue sources for the state match, or through cuts.

DOTD Capital Outlay: BA-7 #44 utilized \$45,984,485 of projected excess fund balance from the Transportation Trust Fund – Regular (TTF-R) above FY 16 appropriations levels and a projected \$1,645,000 from the State Highway Improvement Fund (SHIF) above FY 16 appropriations. The DOA reports that it will back fill these reductions to the transportation capital construction budget through the utilization of undesignated fund balances within the respective statutory dedications, resulting in no net reduction of expenditures in FY 16. There are sufficient funds available to cover this offset. A cash balance of \$33.6 M TTF-R was carried forward from FY 15 into FY 16, of which approximately \$4.1 M was tied to carry forward expenditures, leaving a net undesignated balance of \$29.5 M. The additional \$16.5 M needed to offset the FY 16 reduction is based on additional TTF-R revenues projected by the REC over and above the

revenue forecast in place at the time of the finalization of the appropriations bill during the 2015 Regular Session of the Legislature. Likewise, the \$1.65 M needed to offset the SHIF reduction is available due to an increase in the revised revenue forecast for that statutory dedication. To the extent that the current FY 16 revenue forecasts for the TTF-R and SHIF are realized, the capital construction program can be backfilled to offset the current proposed reductions. In the absence of the reductions, these funds would have been available for supplemental operating or capital appropriations during the FY 16 legislative session or for operating or capital appropriations in FY 17.